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# ***JPRS Report***

# **China**

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# China

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### Structural Reform of State Urged

93CM0135B Beijing GUANGMING RIBAO in Chinese  
11 Dec 92 p 1

[Article by Xiong Xuegang: "Enterprises and Government Help Each Other Reform"]

[Text] To meet the requirements in developing a system for socialist market economy, the reform of enterprises must be further deepened, and pace must be accelerated in reforming the administrative system and structure of government departments. This has become a common understanding of the people. In the course of making specific reforms, the need to correctly understand and scientifically handle the internal relations between the reform of enterprises and that of government departments is of great significance in terms of methodology.

This kind of internal relation mainly manifests as follows:

The reform of the government departments restrains that of enterprises. In the same way, the reform of enterprises also restrains that of government departments. First, the reform of enterprises is the source of the motive force in reforming government departments. Government departments belong to the superstructure which serves the economic base including the enterprises. Therefore, the motive force for the reform of government departments after all comes from the economic base and the enterprises. The requirements of the economic base are the goals of the reform of government departments, while the services needed by the economic bases constitute the duties of the government departments. The organizational structure and the operational mechanism of government departments must be in line with the establishment and development of the socialist market economy. Second, the reform of enterprises provides an important basis for the reform of government departments. The reform of the administrative system and mechanism we mentioned before is not a reform without any aim. Nor is it a self-centered reform. It is a reform with a goal of establishing the system of socialist market economy. Therefore, in the course of carrying out the reform, we must take into consideration the needs of the enterprises. Otherwise, we will not understand what should be reformed and how to reform. For example, if the government deviates from the frame of reference of market economy and ignores the requirements of the enterprises, how can it change its functions

and in what way can it make the changes? For example, after changing its functions, the government departments must shoulder the responsibilities of exercise macro-control, making overall plans and offering guidance by supplying information. If the government departments deviate from the frame of reference of market economy and are not so clear about the situation, the product mix and the industrial structure of various enterprises, how can they "exercise macro-control" and "making overall plans". How can they talk about offering guidance by supplying information? Third, the reform of enterprises also provides government departments with an important criterion to reform themselves. Is the reform of government departments a success or a failure? Our criterion is not the reform itself. It is whether or not this reform is conducive to speeding up reform and to quickening the pace in opening up and developing economic construction and whether or not it is beneficial to strengthening macro-economic control and raising administrative efficiency. It is obvious that anything conducive to enterprise reform and economic development constitutes an organic component part of this criterion.

The reform of enterprises and that of the administrative system and mechanism of government departments maintain an internal relation of mutual restraint. From another point of view, they also maintain an internal relation of helping each other march forward. The experience of many advanced districts and departments show that to consciously understand and handle well this kind of relation not only helps increase one's initiative and sense of emergency, but also greatly enhances one's awareness to participate in reform and one's sense to accomplish this mission. This is because I, as an enterprise, will not regard the reform of government departments as something which does not affect me. On the contrary, I would deal it as something which affects me, because I clearly understand that it will be difficult for us to deepen our enterprise reform if the government itself does not carry out its corresponding reform.

Socialist reform is a conscious action of hundreds of millions of people. To establish a system of socialist market economy is a complicated system engineering project. It requires close cooperation among all sectors of life and people's active participation. At the same time, it also requires that the various departments of the superstructure and those of the economic base help each other march forward and coordinate with each other. All our comrades in every field, every department and every unit should achieve such an understanding.

## NATIONAL AFFAIRS, POLICY

## Symposium on Choices of Market Strategies

93CE0142A Beijing JINGJI RIBAO in Chinese  
17 Nov 92 p 3

[Edited by Wang Xiaoyun (3769 2556 0061): "Symposium on Choices of Market Strategy; Excerpts from Speeches at the Symposium on the Socialist Market Economy and Market Strategies"]

[Text] Yuan Baohua [5913 1405 5478] (*President, Chinese Business Administration Association*) This conference has not been called just for the regular discussions about the market economy, but to discuss the absolute need to link a market economy with the marketing and sales strategies of enterprises. This is a step forward. I think this is a good way to start working toward an understanding of the spirit of the 14th Party Congress. We can begin to get to work on important issues related to the establishment of a socialist market economy.

In the final analysis, the market mechanism is a competition mechanism. Enterprises are going to enter the marketplace, and their ability, or lack thereof, to compete is a key issue. When an enterprise enters the marketplace, the first thing to ask is whether its hands are tied. If they are tied, then will it not drown when pushed into the great ocean we call the marketplace? If it can move its hands and feet freely, it will be able to demonstrate its abilities. An enterprise's marketing strategies are extremely important if it is to improve its competitiveness. To enter the marketplace, one must first understand the marketplace; otherwise, how do you enter it? Products must be oriented toward the marketplace, and all enterprise work must revolve around its products. Only in this way will production be arranged in accordance with market requirements. In the past, enterprises put production before marketing, but now it needs to be the other way around. This requires that we change our way of thinking, and enterprises must also be organized in a new way. In the past, manufacturing enterprises put top priority on production, but now that they are entering the marketplace they are oriented toward sales and must put top priority on marketing. Marketing strategies are very important. Enterprises must choose a corps of personnel to fill out their marketing departments. Both pre-sales and after-sales work must be focused upon. At the same time, after they have entered the marketplace, enterprises must raise the practice and theory of marketing to a new level if they are to adapt to the ruthless competition of the marketplace.

Xia Guangren (*Professor, Chinese People's University*) The market economy requires that an enterprise become an independent economic entity, with the status of a legal person, which can operate independently. Without this kind of enterprise, there can be no market economy. The actors in the market economy are enterprises, so they must adopt new operating concepts and mechanisms which are in step with the requirements of the marketplace. An enterprise's jump from the planned

economy over to the market economy is a complex process. One important part of this process is the need to study marketing strategies.

Many enterprises do not understand this issue well enough. We recently produced an educational videotape called *Marketing Strategies*, in which we attempted to explore this issue. We had two goals. One was to introduce this relatively unfamiliar science to people, and to provide people with a relatively comprehensive understanding of the theory and practice of marketing strategies. The videotape covered eight topics, and we strived for theoretical rigor and comprehensiveness. The second goal was to promote the use of marketing strategies in actual work. In order to make the content of the videotape more applicable to actual work, we included analyses of some classic case studies. We also used the medium of television to visually demonstrate each link in marketing strategies.

Comrades who have seen this videotape have all reacted favorably. They feel that there is a lot of talk about the importance of the market economy, but little is understood about how to enter the marketplace, or how to make use of successful marketing strategies.

Guo Chuanzhou (*President, Beijing Department Stores Group*) The Beijing Department Store opened in 1955. It was a large-scale retail commercial enterprise born under the planned economy. In the past 37 years, it has played an important role in stimulating markets, developing the economy, and improving the people's standard of living. However, as the economy has developed, many shortcomings in the planned economy have come to light.

In the past few years, we have adhered to the program of "reform, opening up, and revitalizing the economy." We have carried out a series of reforms in the areas of operations, prices, contract systems, distribution, personnel, hiring, and leadership systems. For example, we have carried out the "three plenties and one scarcity" in reform of the circulation system; we have strengthened lateral ties between enterprises; we have implemented the "two guarantees, one contract, and one report in operating responsibility system," as well as the "four deregulations" experiments, all of which met with a certain degree of success. However, the potential of enterprises is far from being fully tapped, the operating mechanism is far from perfect, and they are still not very ready to participate in the marketplace. Enterprises still carry many features of the planned economy, which are primarily manifested in the following ways: property rights are unclear; government and enterprise functions are not separated; enterprises (particularly those involved in foreign trade) do not yet have the proper degree of operational autonomy; enterprises have little ability to upgrade themselves and develop; the distribution of economic benefits among different economic sectors is unfair; etc.

Our company is carrying out bold reforms mainly in two areas. First, we are freeing ourselves of the ideological concepts, work habits, and methods which formed under

the planned economy. We are becoming market-oriented, and truly turning into the primary retainer of profits and carrier of risk. The goal is to achieve a fundamental change in the operational mechanism of our enterprise. Through property evaluation, we intend to clarify enterprise property rights, and further improve the relationship between ownership rights and operational authority. We are exploring ways to improve the ability of enterprises to upgrade themselves and achieve economies of scale without relying completely on investments from the state. We also intend to strengthen cohesiveness within the enterprise by implementing an employee shareholding system. As for the second area of reform, we are working to adapt to the requirements of large-scale commerce and circulation, and to orient ourselves toward both domestic and international markets. China will regain its membership in the General Agreement on Tariffs and Trade (GATT) next year. China's markets will be further opened up to the world, and Chinese enterprises will have more opportunities to enter foreign markets. The domestic and international markets in which we are situated will be open. We must therefore step up research, strengthen agencies charged with collecting and distributing information, and start early to improve our operational ability and acumen in order to adapt to changed market requirements.

**Sun Shangqing** [1327 1424 3237] (*Vice-Director, Development Center, State Council*) In a market economy, enterprise marketing strategies must be oriented toward the marketplace in order for the allocation of social resources to take place. In a planned economy, the plan is the basic means by which resources are allocated, but in a market economy, the market mechanism is the basic means by which this is accomplished. Thus, we must gain a clear understanding of how the marketplace allocates resources, otherwise enterprise marketing work will not be appropriate for this mechanism; it will be undirected and inefficient.

For any enterprise, its marketing strategy in a market economy must be to produce products needed in the marketplace, and to bring about a situation in which demand exceeds supply. Any enterprise which can achieve this marketing strategy will do well. The difference between enterprises is in the area of tactics. There are many factors which go into tactical decisions. I would emphasize one point: it is extremely difficult to scientifically and accurately gauge markets. Even if you have computers to assist in the compilation of market information, it will not completely resolve this difficulty.

There are many changing factors in the marketplace; some are domestic, some are international, some are political, some are economic, some are geographical, and some are related to natural conditions. All affect markets. How does one judge them? When I speak of gaging markets, what I mean is that enterprises must react to market changes in a timely manner, not that they must foresee market changes ahead of time, which would be impossible. I feel that this is the basic requirement of us who formulate marketing strategies. If we cannot keep

up with market changes, it shows that we are not sensitive to market feedback, and that there is something wrong with the mechanism. It also indicates an incorrect analysis of various factors related to market changes.

**Hu Tiecheng** [5170 6993 2052] (*Senior Economist and Lawyer, State Bureau of Industry and Commerce*) *Discussion these days generally focuses on how to cultivate and develop a socialist market economy, but most theoretical writings and symposia have had to do mostly with systems and mechanisms. At this symposium today, everyone is discussing marketing strategies. I understand that to mean we are working with the nuts and bolts now.*

My personal view is that if one is to study markets, one must first recognize the importance of studying the main actor in the marketplace—enterprises. One must study how the business activities of enterprises are to be freed from the planned economy, and how they are to adapt to the requirements of a market economy. I don't think people have paid nearly enough attention to this issue.

Third quarter statistics this year indicate that there are over 5.4 million enterprises in China. Furthermore, 100,000 companies have been formed since Comrade Xiaoping's trip south, and this figure is higher than those from before 1989. So many enterprises, so many actors in the marketplace, constitute the target of our theory and policy research. At the same time, it seems that those enterprises even now do not operate completely within the planned economy. Many enterprises have accumulated a lot of experience in management and marketing. At this symposium held by the ECONOMIC DAILY, we are discussing the most important and concrete issues related to entry into the marketplace by enterprises. I think a great number of them will pay close attention to this symposium.

**Kuang Hong** [6782 7703] (*Professor of Economics, People's University*) Modern marketing and sales theory holds that marketing is different from sales. Pre-production surveys, product development, pricing, distribution, sales promotion, and after-sales service all fall under the category of marketing. With the development of the commodity economy, some new situations have arisen in China, some of the main ones including: identification by the 14th Party Congress of establishment of a socialist market economy as a goal of economic reform; supply outstripping demand, and the appearance of a buyer's market; and China's coming entrance into the GATT in the midst of strengthening protectionism throughout the world. Under such circumstances, we need to be even more aware of the importance of: boldly borrowing and learning from modern marketing theory and methods, and changing traditional marketing concepts; putting the buyer first and thinking of every way possible to satisfy the needs of the customer; and in the area of business methods, having industry make production decisions on the basis of sales, and having commercial enterprises determine purchasing on the basis of sales.

**Lei Zhiqin** [7191 1807 2953] (*Vice-President, Luoyang Chundu Foods Group*) The Chundu Group is an enterprise group at the core of which is the Luoyang Consolidated Meats Plant. Our current relative success has a lot to do with marketing. We feel that an enterprise's entry into the marketplace is more than a simple matter of stimulating sales; under the concept of marketing, production and all other business operations are oriented toward the market. All the activities of an enterprise should revolve around the market.

I believe that after an enterprise has been cut loose from the planned economy, it has to learn how to swim. If it cannot learn how, it will drown even though its hands and feet can move freely. Our own enterprise's experience in entering the marketplace was, in essence, a process of learning to swim, a process of learning about marketing. In the midst of a nationwide downturn in the meat processing industry, we identified a market for the Chundu brand ham sausages by means of arduous market research. We used different marketing tactics for different markets. Different sales targets were addressed with different types of advertising campaigns which had been scientifically formulated, rapidly establishing markets for the product. We feel that a product is first a commodity; it must have a market. An enterprise's survival depends on whether and how well its products sell, so we are willing to invest a lot of brain power and financial resource in marketing. It is truly like waging war. In the past, as a state-run enterprise, we did not attach too much importance to marketing, but since there has been a market, we have come to understand with increasing clarity that how well you do your marketing has a crucial impact upon an enterprise's survival and development.

**Pan Chenglie** [3382 2110 3525] (*Vice-Chairman, China Business Administration Association*) For the enterprise, the main issue surrounding the new market economy is the need for new concepts or, so to speak, to "get a new set of brains." The newest saying abroad is that in the 1980's we looked at every customer as an individual, while in the 1990s we look at every individual as a customer. In other words, we must look for potential customers, worry about what they worry about, think about what they think about, and stimulate them so that latent demand can be converted into real demand. This potential market is vast. Just as some factory heads say, when a factory head reads the newspaper, one must read between the lines and ferret out the opportunities the market offers one's own enterprise. For example, the special demands of today's only sons and daughters are worth studying. They constitute a large market.

From the perspective of consumer psychology, after a person's needs have been satisfied, as long as one has extra purchasing power, one will need something else. What that might be will not necessarily be clear to that person. If the product or service and enterprise is capable of delivering satisfies this latent demand, the enterprise can win new customers and markets.

Savings in China now amount to more than one trillion renminbi, and stockpiled inventories amount to more than 100 billion in value. This shows that there is an urgent need to readjust industrial structure and the product mix, and that such a readjustment could actually be achieved.

**Tao Bei** (*Research Fellow, Institute of Finance and Trade, Chinese Academy of Social Sciences*) As enterprises learn to use marketing theory in their business operations, there are three things they must accomplish: 1) The position of the enterprise must be clarified. There need to be clear property rights before the rights, responsibilities, and interests of an enterprise can be known. 2) An enterprise's marketing strategy must receive top priority. For a long time, we have been accustomed to selling whatever we produce, so the factory head in charge of production has always been the final authority. Some enterprises have not actually had a factory head in charge of marketing, and basically have lacked a marketing strategy, so it is now necessary that high importance be attached to the scientific implementation of a marketing strategy. I noticed in a trip abroad last April and May that one company attached great importance to marketing work. Its manager in charge of marketing had control of the advertising expenditures of each of its marketing departments. In reality, marketing occupied a position of central importance in the company. 3) Problems with concepts must be resolved. Markets today are a big jumble; they are not differentiated into different levels. An enterprise should continually define its market position; it cannot follow others. The term market position includes the following aspects: a scientific identification of an enterprise's target customers; research into how the operations of other businesses in the same industry differ; and enterprises in different industries must have different methods of operation.

**Cheng Jiushi** [4453 0036 1395] (*President, Yuntong Marketing and Planning Corporation, Ltd.*) Marketing and planning companies are very developed abroad, but they are just getting established in China. The clear call by the 14th Party Congress for establishment of a socialist commodity economy has certainly provided this industry with a great opportunity to develop. If our own marketing and planning companies, which exhibit clear Chinese characteristics and have considerable power, do not take advantage of this opportunity, this market could almost certainly be entered or even conquered by foreign companies.

Our experience indicates that the most important thing is to clarify the position of the marketing and planning industry. Some people have the idea that marketing and planning is only a matter of thinking up ideas, selling information, and at most helping others put on press conferences. In reality, this understanding is narrow and one-sided. What we in the marketing and planning industry try to prevent is short-term behavior. Our point of departure is long-term interests. Practice has also shown us that the marketing and planning needed in China includes a series of concrete tasks, such as market

research, market positioning, production and operations, new sales methods, and planning. We must also bring about a dovetailing between domestic markets of different regions, and between markets in China and abroad. As we work to serve enterprises, we must use systematic and comprehensive strategies and tactics. Marketing and planning companies must assume risks and establish markets together with their clients. This requires greater professionalization and knowledge, and more modern management practices, in our industry.

The needs of industry and commerce constitute an important basis for determining the position of marketing and planning companies. However, we feel that if a company is to make a go of it in a socialist market economy, it absolutely must be unusually skilled at the art of "swimming" in Chinese markets. Perhaps this is the greatest asset our own company has in the Chinese marketplace, and it may be the talisman which aids us in competition with foreign competitors.

**Lin Gongshi** [2651 0501 1395] (*Deputy Dean, Graduate School, Qinghua University*) In studying marketing, one must first study people—their concepts, their psychology. As the socialist market economy is established, people's concepts, ideology, and consumer psychology will undergo great changes. You also have to study your competitors to see what they do once consumer needs have been satisfied. Secondly, how to achieve an organic combination of technology and marketing is an issue. We must train marketing engineers who understand not just marketing but technology, as well, and especially some types of high technology. Third, in formulating marketing strategies, one must know oneself as well as the competitors. There are three aspects to Japan's successful marketing experience: 1) When they start to work on marketing, first consideration is given to what is needed on the market. 2) What can I provide? 3) How do I organize for the task? There is much to learn from this experience. In other words, we must distinguish between different customers as we formulate marketing strategies appropriate for ourselves.

**Tian Fu** [3944 1133] (*President, Chinese Academy of Management System Sciences*) In order to adapt to the socialist market economy, we must fundamentally alter the highly centralized management system of the past which relied on administrative fiat. We must establish a scientific system of macroeconomic management which can correctly reflect the market and efficiently guide it. Reform of the management system must, on the one hand, achieve a structured reform of organizational and structural shortcomings, such as bloated organizations, duplication of functions, and too many employees. On the other hand, it must also readjust obstacles in the operating mechanism, such as low efficiency and cadres who are divorced from the masses, so that the management system can form a highly efficient operating mechanism.

### Importance of Changing Enterprise Operating Methods

93CE0173A Taiyuan JISHU JINGJI YU GUANLI YANJIU [TECHNOECONOMICS AND MANAGEMENT RESEARCH] in Chinese No 5, Oct 92 pp 3-8

[Article by Wang Zhu (3769 3769 6269): "Cursory Remarks About Changing Enterprises Operating Mechanisms"]

[Text] Changing the operating mechanism of enterprises must be studied by linking the macroeconomic and the microeconomic, taking the relationship between enterprises and markets as the main theme, taking people as the main focus, and taking staff members and workers as the principle entities. If disparate markets are linked, if people are not taken as the main focus, and if staff members and workers are not taken as the principle entities, but enterprise operating entities are dealt with in isolation; or if enterprises operating mechanisms are regarded as a catch-all into which all sorts of disparate elements can be placed without any effort being made conceptually or organizationally to escape from the embrace of a planned production economy enterprise operating mechanism, it will be very difficult to transform enterprises operating mechanisms in a fundamental way.

Study of the transformation of enterprises operating mechanisms that takes the relationship between enterprises and markets as the main theme, that takes people as the focus, and that takes staff members and workers as the main entities requires a look at problems on three levels as follows:

#### First Level Problems:

How can enterprises enter market competition?

Regarding the problem solely in terms of the separation of government administration and enterprise management will not completely solve the problem; regarding the problem solely in terms of applying the *Business Enterprise Code* will not completely solve the problem; and regarding the problem solely in terms of breaking the three irons, i.e., iron rice bowls [guaranteed employment], iron wages [pay parity], and iron armchairs [vesting and enjoyment of the perquisites of office] will not entirely solve the problem either.

Where does full solution to the problem lie?

The whole problem is that command-style business enterprises are unable to compete in the market. Enterprises in which a "two track system" of command-style plan and market regulation have been instituted may be deemed to have conditions for entering market competition; and enterprises in which command-style plans have been abolished, i.e., enterprises in which supply, production, and marketing are completely market-regulated, may be considered to have conditions for fully entering market competition.



At the present time, most large- and medium-sized state-owned enterprises meet conditions for entering market competition and for fully entering market competition, but by no means all the enterprises that meet conditions for entering or fully entering market competition can truly enter market competition. Their umbilical cords are still attached to government organs. Unless this umbilical cord is cut, empty talk about changing enterprises operating mechanisms is a fruitless approach.

Cutting the umbilical cord takes three reforms as follows:

1. Separation of enterprise ownership rights and operating rights, efforts made to run a share system and to perfect contracting systems. State-owned enterprises having requisite conditions must gradually try out the share system, instituting an independent equity system whereby enterprises are legal entities, i.e., an enterprise system of independent property rights and responsibility for one's own profits and losses.

State-owned enterprises having requisite conditions must gradually transform themselves into share system enterprises in which public ownership is paramount. This includes state-owned enterprises buying shares as legal entities, social groups buying shares, staff members and workers buying shares, and collectively owned enterprises buying shares as legal entities, as well as non-publicly owned sectors of the economy holding shares. Development of share system enterprises requires a little boldness. The share limits that the People's Bank of China has set should be abolished inasmuch as enterprises expansion of their shareholdings neither upsets the aggregate balance nor does it upset the credit capital balance. Most investment in shares amounts to changing bank account savings into business enterprise savings; it is just bank savings in another form that do not change the total amount of bank savings.

Encouraging the share system is correct; repudiating the contract system is unrealistic. Enterprises in western countries cannot achieve a 100 percent share system; much less can Chinese enterprises become 100 percent share-invested. I feel, first, that the share system and the contract system must not be regarded as an either-or proposition; and, second, one must realize that the vitality of the contract system is far from gone. The important thing is that the contract system can be perfected; a great deal that can be done to perfect the contract system remains to be done.

2. Institutional and functional separation of government's economic control authority and assets ownership authority, using this as a basis for changing government's economic control functions. Government's economic control functions would be oriented toward enterprises in all trades and industries throughout society, control based on law rather than on enterprises' subordination. Consequently enterprises would not be administratively subordinate to government; only an equity relationship would exist.

3. Separation of taxes and profits, and after-tax loan repayment. Maintenance of a position of equal market competition between state-owned enterprises and non-state owned enterprises requires enforcement of a uniform national income tax rate (concessionary treatment accorded foreign-invested enterprises). So long as the income tax rate for state-owned enterprises and for share system enterprises in which state-ownership predominates is lowered to between 25 and 30 percent, an after-tax loan repayment system should be instituted.

A general consensus has been substantially reached on what reforms are needed to cut the umbilicus between enterprises and government. The important thing now is implementation and putting reforms in place. Once reforms are put in place, the business activities of noncommand style plan enterprises and of non-command style plan enterprises alike will be bound to part company, government administrative organs entering the market directly. Through market competition, their operating mechanisms will be tested in the survival of the fittest. Under normal circumstances in the macroeconomic environment, an overwhelming majority of enterprises will develop and grow strong through market competition; an extremely small number of enterprises will go bankrupt and collapse. Under the socialist system, the bankruptcy and collapse of an extremely small number of enterprises is a requirement of society that provides impetus for change in the operating mechanisms of other enterprises. It is also a normal requirement for social progress and economic development. This requires a conceptual change that is the first line of thinking for changing the operating mechanism of enterprises.

#### Second Level Problems:

##### What Kind of Market Do Enterprises Require?

Enterprises require markets in which supply and demand are balanced. Enterprises cannot accept markets in which supply and demand are seriously skewed, including markets in which supply and demand are unbalanced, and markets that are structurally dislocated. Such markets are manifested in three forms as follows:

- (1) Demand inflation markets are an outgrowth of incorrect government macroeconomic regulation. Incorrect government macroeconomic regulation stems largely from mistaken financial regulation policies, i.e., the use of mistaken transitional currency issuance policies based on the theory that fiscal deficits cause no damage and the theory that inflation is beneficial, which expand the scale of investment in fixed assets. Investments changed into two kinds of purchasing power as follows: One is purchasing power invested in the means of production market; the other is purchasing power invested in the means of consumption market. The result is an inflation of purchasing power that creates four shortages and public disquiet. The four shortages are a shortage of electricity, transportation, communications, and raw materials. The result of these shortages is superficial prosperity, but intense deep-down anomalies. Public disquiet means disquiet about currency inflation and

price rises that produces withdrawals of savings for panic buying, economic conflicts thereby being translated into political conflicts. Clearly, enterprises cannot withstand excessive demand inflation markets, and the public cannot bear them either.

(2) Excessively flat demand markets are an outgrowth of shortcomings in government macroeconomic regulation. The curtailment of demand while improving the economic environment and rectifying the economic order was correct, but knowing how far to go was very difficult. The main office of the Chinese People's Bank made issued five decrees, one after another, to tighten the money supply.

(1) It decided to change from a guidance plan to a command-style plan only to remove too small amount of money from circulation.

(2) Then, after raising the savings account reserve rate 2 percent in November 1987, it raised it another 1 percent in 1989 for a total of 3 percent, all payments calculated on the basis of the total credit balance. This was an extremely severe measure for tightening the money supply.

(3) It ruled that beginning from the end of February 1988, 30 percent of the entire savings balances of city and town credit cooperatives and trust institutions in the Chinese People's Bank were to be handed over, and that 50 percent of the portion in excess of the credit amount was to be handed over.

(4) All short-term Chinese People's Bank loans to non-banking and financial institutions were recalled.

(5) The Chinese People's Bank head office curtailed short-term credit to the specialized banks.

One goal of these five decrees was curtailment of the scale of credit to tighten up enterprises' working capital. In order to realize this goal, the specialized banks and other financial institutions made deductions from the accounts of production enterprises and commodity circulation enterprises in accordance with instructions from above to cut back the scale of credit. In cases where not enough was taken this way, more was taken by ruling that they could only deposit but not borrow, or that they would have to deposit much to get a little credit.

A modest cutback in the money supply was needed, but the emphasis should have been on investment in fixed assets, and to an appropriate extent. It should not have been overdone; even more, the emphasis should not have been on enterprises' working capital. In reality, however, the emphasis in cutting back the money supply did fall on working capital. Pressured by these measures, enterprises were forced to pursue two strenuous courses:

First, enterprises became mired in a capital shortage predicament. Difficulties in enterprises production cycles, clogged currency exchange avenues, stagnated commodity circulation, and a credit crisis caused "circulation outside the system" in finance and banking.

Difficulties with "circulation outside the system" resulted in enterprises falling behind in payments to each other, and this chain of debt bound enterprises hand and foot.

Second, enterprises encountered a slump in market demand causing a huge slide in their production.

(3) The market's seriously skewed supply and demand structure meant some enterprises could not act vigorously.

When the market rallied, why did enterprises' returns not go up? The answer to this question lies in the translation of the market slump into a skewed structure. The skewed structure meant a surplus production capacity for some enterprises and insufficient production capacity for others, and large and medium size enterprises were also the first to suffer. They could hardly bear it; consequently, a drop in returns occurred.

Several circumstances resulted from the skewed market supply and demand structure:

- (1) Markets having insufficient supplies of raw materials.
- (2) Markets showing lackluster sales.

The skewed market supply and demand made it difficult for enterprises to act vigorously; it also led to a slide, or no rise, in enterprises' returns.

The market imbalance between supply and demand was not caused by the actions of any single enterprise but was created by a series of macroeconomic incongruities. One was imbalance in aggregate amount; one was excessive inflation; and one was excessive cutbacks. Second was structural dislocations manifested in a skewed industrial structure and a convergence in the structure of regional industries. Once a shortage or a surplus of goods occurred, some jurisdictions resorted to mutual regional market blockades.

Inputs and cutbacks in the macroeconomic aggregate were an outgrowth of government macroeconomic regulation and control. The structure was also an outgrowth of government macroeconomic regulation and control inasmuch as level-by-level examination and approval was required before a project could begin and, in the end, it was a skewed industrial structure that was approved. Clearly, the problems stemmed from government macroeconomic regulation mistakes. As a result, enterprises could not act vigorously, and returns did not rise. The main problems were an accumulation of mistakes in macroeconomic regulation that the government had committed over the years.

Naturally, government reacted sincerely and earnestly, but it did not succeed because of the government action mechanism, and also because the new macroeconomic regulation mechanism was not sufficiently developed to take over from the old one. The traditional macroeconomic regulation mechanism had been fashioned for the traditional macroeconomic system. However, this macroeconomic system had been demolished in reform, but a macroeconomic system suited to the commodity

economy had not yet been built and put on a sound footing. Inevitably, the new macroeconomic regulation mechanism fell short of needs. Therefore, I believe that simply emphasizing a transformation of business enterprises operating mechanism will not be totally effective in invigorating large and medium size enterprises. I recommend doing two things at once: One is to work on changing the macroeconomic regulation mechanism, and the other is to change enterprises operating mechanisms while simultaneously giving attention to deep-seated contradictions in the national economy, analyzing them level by level:

At the first level, the deep-seated problem of insufficient enterprise vitality lies in imbalance between market supply and demand. So-called market supply and demand imbalance is exhibited in three different kinds of markets: The first is the market of overinflated demand; the second is the market of overly sluggish demand; and the third is the market having a skewed structure.

At the second level, the deep-seated problem of supply and demand imbalance lies in imbalance in aggregate amounts and structural dislocations.

At the third level, the deep-seated problem of imbalance in aggregate amounts and structural dislocations lies in government actions, meaning mistakes or injudicious actions.

At the fourth level, the deep-seated problem of government macroeconomic regulation mistakes or injudiciousness stems from the lack of continuity in the change from the old to the new macroeconomic regulation mechanism. The macroeconomic regulation mechanism suited to a product economy was fragmented by the destruction of the former macroeconomic mechanism, but a macroeconomic regulation mechanism suited to the commodity economy had not yet been completely fashioned inasmuch as the new macroeconomic system has yet to be fully built. This meant a hiatus in the changeover of the macroeconomic regulation and control mechanisms.

On the basis of the analysis of the foregoing four levels, what is the main problem controlling the overall situation regarding the vitality and returns of large- and medium-sized enterprises.

Practice shows the main problem controlling overall economic life in recent years has been government macroeconomic regulation actions, meaning that government macroeconomic regulation mistakes have brought about aggregate imbalance. This problem has been largely solved through three years of improving the economic environment and rectifying the economic order, so now the main problem has become structural dislocations. Therefore, I feel that the State Council's call for major emphasis on readjustment of the structure is an entirely correct strategic decision. This is because only structural readjustments can create the market conditions needed to improve the returns of large- and medium-sized enterprises. Nevertheless, both improving

the economic environment and rectifying the economic order and structural adjustment are stopgap measures; they are not sound strategies for long governance and lasting stability.

In recent years, a single refrain and a single theme has pervaded the country, namely that all difficulties stem from enterprise operating mechanisms. People cannot deny the following fact: China's 12 year reform process has been a process of gradual change in enterprises operating mechanisms, and has also been a process of steady increase in enterprises vitality. Why is it that the enterprise operating mechanism has all of a sudden become the main cause for enterprises' insufficient vitality and not very high returns? We cannot regard enterprises operating mechanisms as a large catch-all into which all problems can be put. I believe that the current lack of enterprise vitality results from the slowness of two mechanism changes, one the government macroeconomic regulation mechanism, and the other the enterprise operating mechanism.

Changing the government macroeconomic regulation mechanism requires reform of the macroeconomic system. The macroeconomic system's functions are dual in nature: to put limits on government actions, and to check and balance operation of the economy, the goal being to check and balance the national economy's coordinated, steady, and sustained development.

The lag in reform of the macroeconomic system during the past 12 years and the need to destroy the old macroeconomic system created a hiatus in the changeover of the macroeconomic regulation mechanism. The three years of improving the economic environment and rectifying the economic order were actually devoted to solving the problems that stemmed from the hiatus in the changeover of the macroeconomic regulation mechanisms. However, in the course of improving the economic environment and rectifying the economic order, the methods used to advance reform could not be used to solve the problems; consequently, the old macroeconomic system methods were revived and strengthened to solve the new problems. An example was increased use of the traditional function of command-style plans, resorting to monopoly dealings in some products. In controlling the scale of investment, the source of funds was not controlled nor were the number of sources of funds regulated. Instead, an arbitrary cutback [silongzi 2934 4705 1311] was decreed. In controlling the scale of credit, the credit funds balance was not controlled; instead, a command-style quota that was not fully consistent with realities was used to control the scale of credit. These situations demonstrate that reform is like a boat sailing against the current: if you do not move ahead, you go backward. The problem today is that macroeconomic system reform must be done a little more boldly and the pace must be a little faster. They key to this lies in daring to discard old ways of thinking and adeptness in proposing new ways of thinking. What are new ways of thinking? New ways of thinking means demolishing quotas and arbitrary cutbacks [silongzi] and

the formation of a level-by-level system of checks and balances. It also means giving first place to checking and balancing aggregates inasmuch as inflation of aggregates amounts inevitably leads to structural dislocations. This reason for this is that inflation of total amounts is bound to lead to an overheating of market demand, and the overheating of market demand is bound to lead to the starting of ill-advised projects, every product being regarded as having sales appeal. On the other hand, inflation of aggregates brings on retrenchment throughout the economy that hobbles enterprise vitality.

Setting firm quotas and decreeing arbitrary cutbacks [silongzi] are not effective ways of controlling total amounts. The current method is to rely on two so-called "talismans," namely arbitrary cutbacks [silongzi] in the scale of investment in fixed assets, and arbitrary cutbacks [silongzi] in the scale of credit. These two arbitrary cutbacks [silongzi] do not control "projects undertaken through connections" or "leading cadre discretionary projects," which means that they do not close the door on aggregate inflation. On the other hand, the beginning of projects for which no funds are permitted and loans for which not credit funds are permitted also appear causing enormous bank savings shortfalls in some places. This is a rigid administrative mechanism that hobbles the development of productivity, which is incompatible with the superiority of a distinctively Chinese brand of socialism. I suggest immediate scrapping of the product economy macroeconomic system line of thinking. Real reforms require incrementally increased or decreased level-by-level fiscal, credit, and foreign exchange contracting or differential control, each level being responsible for balance, trimming its sails to suit the breeze and making readjustments once at the beginning of each 5-year plan, guaranteeing no change for 5 years. This will create a checks and balances mechanism whereby government at each levels checks and balances its own actions. In this way, leading government cadres in charge of aggregate amounts can automatically declare that there is positively no money to be had. Such a self-checking and balancing mechanism is a bulwark against aggregate amount inflation; there is no reason whatsoever for higher officials to use "arbitrary cutbacks" to halt it.

When the aggregate amount is basically balanced, the markets are also basically stable. In its effect on reproduction, when markets are stable, generally speaking people will not dare strive to start projects or start projects ill-advisedly. In its effect on reproduction, stable markets also mean a rational market climate exists for enterprises to enter the market. This is taking the relationship between enterprises and markets as the main theme to provide a macroeconomic market environment that emancipates the operating vitality of enterprises. This is the second line of thought on changing enterprises operating mechanisms.

### Third Level Problems:

Where to begin in changing in the enterprise operating mechanism?

By the enterprise operating mechanism is meant an enterprise's inherent vitality to compete and respond to changes in the marketplace.

As the socialist commodity economy grows more and more, and the market situation steadily changes, the pressures and risks to which enterprises are subjected through market competition become greater and greater. For enterprises to survive and develop in the face of such market competition, they must change their operating mechanisms in order to obtain ample strength to meet market competition. From where does this strength come? A search discovers that people's enormous enthusiasm is the source of strength. Thus, attention focuses on people, a new line of thought put forward of taking people as the focus and taking staff members and workers as the main entity in the building of an enterprise shared destiny community. In this way, the vitality inherent in the enterprise operating mechanism gradually comes to the fore simultaneously.

An enterprise shared destiny community reflects the essential character of the relationship of one person to another in enterprises under socialist public ownership. Thus socialist publicly owned enterprises objectively possess conditions whereby staff members and workers can form a community having a common destiny with enterprises. However, a socialist enterprise community having a common destiny is not something that generates spontaneously; rather, it is consciously produced. The experiences of the Guangzhou Iron and Steel Mill tell us that formation of a socialist enterprise shared destiny community requires an enterprise leadership collective united for battle that strives to move upward, adherence to the Party's basic line, perseverance in reform and opening to the outside world, insistence on taking people as the focus and taking staff members and workers as the main entity, steady coordination of the relationship of staff members and workers to enterprises as well as the relationship among staff members and workers, and dealing correctly in accordance with socialist principles with conflicts among the state, enterprises and individuals, as well as conflicts within the ranks of staff members and workers. It also requires simultaneous attention to technological progress and modern management for the further emancipation of the inherent vitality of enterprise shared destiny communities. I capsule the practical experiences of the Guangzhou Iron and Steel Mill in creating the enterprise shared destiny community model as "five ties that bind, one organization leadership nucleus, and two powerful supports." An explanation appears below:

**1. The Five Ties That Bind** (1) The public ownership tie. Public ownership binds workers together to form a worker collective. Under a system of public ownership of the means of production, every worker has an equal labor cooperation relationship, and it is on this foundation that a relationship of distribution according to labor is formed. This socialist work relationship of distribution according to labor, which is in opposition to the "three irons" system previously mentioned, is best able

to arouse the enthusiasm of every worker, and is also best able to bolster unity and cooperation among all workers. Therefore, distribution according to labor based on public ownership is a tie that binds enterprise shared destiny communities.

(2) The tie of staff member and worker stock sharing. Staff member and worker shareholding in enterprises that are largely publicly owned further serves to make staff members and workers direct owners of the enterprise through equity relationships. They become the true owners of the enterprise, bringing about a direct link between the workers and the means of production that even more expresses the character of production relationships during the preliminary stage of socialism. The Guangdong Iron and Steel Plant is currently in process of developing a share system in which workers hold shares. Therefore, the equity relationships of staff members and workers who hold shares will become a tie that binds the enterprise shared destiny community.

(3) The bond of all personnel contracting. The Guangdong Iron and Steel Mill practices a level-by-level, all-personnel contracting system within the enterprise of "complete vertical contracting and complete horizontal contracting." In this system, branch mills contract with the corporation, mill teams and groups contract with branch plants, and individual workers contract with mill teams and groups. The mill also has also instituted a joint contracting system for principal economic and technical norms. Such a level-by-level all-personnel contracting system in which the enterprise's total returns are directly linked to the interests of contracting units and individuals, and in which the enterprise's total returns are linked to the collective welfare of staff members and workers forms a share destiny relationship between the rank and file and the enterprises of "the plants prosperity is my wealth, and the plant's failure is my poverty." Such an interest mechanism is a tie that binds the enterprise share destiny community.

(4) The tie of democratic authority. Enterprises practice democratic management that politically establishes the position of staff members and workers as masters and confers on staff members and workers democratic authority for running the enterprise. The Guangdong Steel and Iron Mill practices democratic decision making whereby the staff member and workers representative assembly discusses and approves major enterprise decisions and plans for their implementation. This permits the rank and file to critique and supervise the enterprise leaders, exercise the role of the members of the staff member and worker representative assembly, regularly inspect the work of functional units in the enterprise, stimulate staff members and workers to take part in enterprise management, and safeguard the rights and interests of staff members and workers. The democratic authority that the staff members and workers enjoy in the democratic management of the enterprise thus becomes a tie that binds the enterprise share destiny community.

(5) The cultural ideology tie. The Guangdong Iron and Steel Mill actively developed various cultural activities including cultural ideology building and education, literature and the arts, and sports for the purpose of building enterprise spirit, staff member and worker ideals, and a collective consciousness to raise the sense of community of all staff members and workers. While working hard to build cultural ideology, the Guangdong Iron and Steel Mill devoted energies to a combination of awards and material incentives. It emphasized the reporting of staff member and worker efforts, and it stimulated staff members and workers to identify their own pursuits and ideals with the interests of the country and the enterprise for the fashioning of shared ideas, as well as common interest and common value concepts in which the interests of the staff members and workers are identical to those of the enterprise and the state. These served as a basis for common staff member and worker behavior standards. In developing staff member and worker cultural activities, the Guangdong Iron and Steel Mill also created a large social arena for staff members and workers in the enterprise. This included the both cultural activities and sports, as well as various kinds of competitions and exhibitions to satisfy the diverse desires of staff members and workers participating in social activities. This permitted the staff members and workers to feel the warmth and pleasure of being a big family in the enterprise society. The building of cultural ideology in the enterprise intensified staff member and worker feelings of the enterprise as a refuge; thus, it became a tie binding the enterprise shared destiny community.

**2. One Organization Leadership Nucleus** The five ties binding the enterprise shared destiny community are actually bonds of three different kinds: One is the tie of common interests; the second is the tie of political rights, and the third is the tie of cultural ideology. These three different ties require a leadership collective united for combat to serve as an organizational leadership nucleus to hold the ties together. The leadership collective of the Guangdong Iron and Steel Mill, in which the CPC committee is the nucleus, played a leading role in development of the enterprise share destiny community. Only an enterprise leadership collective united for battle can be a staff member and worker community that strives to get ahead. Contradictions existed among the Party, government, and workers, and contradictions also existed among the staff member and worker rank and file. Guangdong Iron and Steel Mill used the Party-government joint conference to coordinate Party-government relations; and it also used democratic management as a bridge for coordinating the relationship of the party and government to the staff members and workers, as well as to support the staff member and worker representative assembly's supervision of the work of administrative leaders. Because the enterprise leadership collective was skilled in handling internal contradictions in the enterprise, it was able to fashion a harmonious relationship among the party, the government and the workers in the enterprise. Consequently,

the enterprise's leadership collective became the organizational leadership nucleus for the development and consolidation of the enterprise shared destiny community.

**3. Two Powerful Supports** The combined strength of a group is greater than the total strength of individuals. This provided a huge potential for Guangdong Iron and Steel Mill's creation of an enterprise shared destiny community. Of course, the combined strength of the shared destiny community was not enough. More had to be done to strengthen and expand the combined strength of the enterprise shared destiny community, thereby enabling the enterprise operating mechanism to demonstrate more spirited vigor and vitality. Consequently, the Guangdong Iron and Steel Mill used two additional powerful supports in building the enterprise shared destiny community.

One was to make technological progress the first support for the enterprise shared destiny community. Technological equipment is a production tool, and production tools are an extension and an expansion of the functions of human organs. Enterprise shared destiny communities that took people as their focus and staff members and workers as their main entity steadily armed their workers with new technologies and new equipment. This was, in essence, an extension, expansion, and intensification of the functions of human organs, which increased production and labor efficiency. The Guangdong Iron and Steel Mill used technological progress as a means in expanding production capacity, used technology to make progress in lowering energy consumption, and used technological progress to improve product quality. They obtained remarkable outputs from modest inputs, thereby developing enterprise production and improving the competitiveness of the enterprise's products, which brought fine economic returns to the enterprise. The constant rise in the enterprise's economic returns benefited the state, the enterprise, and the staff members and workers. This, in turn, consolidated and developed the enterprise shared destiny community through economic interest ties.

Second was to make modern management the second support in buttressing the enterprise shared destiny community. The function of management is to coordinate the joint labor of staff members and workers as productivity requires. Therefore, the nature of modern production technology requires modern management. Modern enterprise management requires strong authority and strict labor discipline. The nature of modern productivity makes this necessary. In 1986, the Guangdong Iron and Steel Mill created its own distinctive gold, silver, and bronze medal management by objective methods, and tied it to a strict responsibility system and a strict and impartial system of rewards and punishments that brought staff member and worker behavior in line with the needs of modern productivity. It also used this as a basis for fashioning a staff member and worker conduct guidance mechanism. This staff member and worker behavior guidance system was authoritative, applied to all personnel, was inspiring and limiting. It was based on

full arousal of the enthusiasm of staff members and workers to ensure that production and returns developed in tandem. Such a modern management model can both propel modern productivity, and can also ensure premium product quality and high efficiency that increases product competitiveness. This enables the enterprise to accept all sorts of challenges in fairly grim market conditions to ensure sustained increase in the enterprise's economic returns. Thus it became the second support buttressing the enterprise shared destiny community.

Building an enterprise shared destiny community by taking people as the focus and staff members and workers as the main entity is the third line of thought for changing the enterprise mechanism.

The present is a key period for accelerating change in enterprise operating mechanisms throughout the country. Study of the practical experiences of the Guangzhou Iron and Steel Mill holds practical guiding significance. The inspiration that Guangdong Iron and Steel's experiences provide is as follows:

Good operation of socialist enterprises, good operation of large and medium size state-owned enterprises, and changing the operating mechanism of enterprises requires adherence to the Party's basic line, taking people as the main focus, and taking staff members and workers as the main entity in the development of enterprise shared destiny communities. The foundation is the inherent vitality of the enterprise operating mechanism, the enormous enthusiasm among staff members and workers, and the huge potential that resides in enterprise shared destiny communities.

## PROVINCIAL

### Sichuan Vice-Governor Pu Haiqing on Economic Policy

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4 Nov 92 p 1

[Article by Li Daixun (2621 0108 8113): "Liberate Thinking, Take Advantage of Opportunities, Get Down to Business—an Interview With Vice-Governor Pu Haiqing"]

[Text] We recently visited Vice-Governor Pu Haiqing [5543 3189 3237], who had just returned after taking part in the 14th National Party Congress. We asked him to share his thoughts on how to go about implementing the spirit of the 14th Party Congress and how to spur the quickest possible advance by Sichuan's economy to a higher level.

Pu Haiqing stated that the entire province must focus on economic development and pursue the reform goal put forward by the 14th National Party Congress—establishment of a socialist market economy. He said that while working toward this goal, we must liberate our thinking, change our concepts, take advantage of opportunities, and roll up our sleeves and get into the real work at hand. A development goal of annual growth of 8 to 9



percent in the gross national product was proposed at the 14th National Party Congress. In view of actual conditions in Sichuan Province, it looks like we are completely capable of meeting or even exceeding this target. If the gross national product of Sichuan Province grows at an annual rate of 8.8 to 9.4 percent, our economy can quadruple in size two to three years ahead of schedule.

According to Pu Haiqing's analysis, the conditions for economic development in Sichuan are very good, normal, and healthy. The harvest has been excellent this year, with total grain production expected to exceed last year's by about 8 percent. The total output of Sichuan's township enterprises grew 48 percent from January through September. Industry has posted stable growth, and improvements in economic benefits have exceeded expectations. Total industrial output has increased 15.3 percent, and the production-to-sales ratio has hit 95.9 percent. All indicators of economic benefits have reached not only historical highs, but are also above national averages. A new situation has emerged in efforts to open up to the outside world and attract foreign investors; 780 new foreign-invested firms involving investments totalling 657 million U.S. dollars have been set up in the province since the beginning of this year. Both of these figures exceed the respective cumulative totals for the previous 13 years. Buying and selling are very active in the markets, prices are stable, the government is running a surplus, and the situation in financial markets is normal. Various facts indicate that we could not have the type of economic overheating that occurred in 1988. We must make more people understand that "development is the only hard and fast rule." We must grasp the opportunity afforded by the rapidly developing domestic economy, face the fully open nature of our economy, and take advantage of the rare absence of major wars throughout the world to accelerate Sichuan's economic development.

The party's decision during the 14th National Party Congress to establish a socialist market economy marked the beginning of a new era. Not only did it provide an important basis for further liberation of our thinking, but it also posed a new demand for further liberation of our thinking and development of the forces of production. For example, it demands that we firmly inculcate the new concepts of a market economy, and that we resolutely handle business in accordance with economic laws. It demands that we further change the enterprise operating mechanism, and that enterprises make their own policy decisions instead of having them made in a unified manner by the government. It demands that enterprises become oriented toward the market, and that they have the ability and vitality to participate in market competition. It demands that the government change its function and do a good job of service, planning, coordination, and oversight. It demands that we cultivate markets, including various tangible and intangible markets, as in such areas as banking. It demands that the market mechanism be fully brought into play. It

demands that we measure our job performance, and that of our cadres, against the standard of the forces of production.

Pu Haiqing felt that in our economic work next year, the entire province must thoroughly implement the spirit of the 14th National Party Congress. We must show boldness in our concepts and actions, and we must act aggressively in several areas. First, we must focus on economic benefits as we further enterprise reform. By pursuing a course of enterprise reform which seeks above all to change the enterprise operating mechanism, we must establish a competition mechanism between and within enterprises, thereby tapping, to the greatest extent possible, the enthusiasm of enterprises and their workers and staff for production. The key to our effort to change the enterprise operating mechanism is the achievement of enterprise autonomy. To achieve this, we must make our breakthrough in "the reform of the three systems," the most important of which is the need to change the government's function. As the socialist market economy develops, decentralization of the government's power is becoming an unstoppable trend. The main conflict right now is the need for the government to relinquish power and free up enterprises, and not to "control the chaos" or busy itself with efforts to standardize enterprise behavior. Of course, the government must pay attention to macroeconomic regulation and control even as it goes about deregulation. It must do a good job of cultivating tangible and intangible markets, including financial, labor, real estate, and capital goods markets. The government must do more to improve its planning, coordination, and services. The number of experimental enterprises in the province will increase to 2000 next year, and various measures connected with these experiments will gradually take effect.

Second, we must focus on technological progress and structural readjustment. As we develop the socialist market economy, the market will determine the success or failure of enterprises. They must rely on competitive products and price advantages to survive in the marketplace. They must fully tap the role of scientists and technicians, and focus on the application and development of high technology. We must zero in on development of a few key enterprises and products with sales revenues of more than 1 billion yuan which can spur economic development throughout the province. We must take advantage of technological progress to create name brand products, and take advantage of name brand products to spur technological progress. We must create more name brand products and accelerate the propagation and utilization of scientific breakthroughs and patents.

Third, we must focus on opening up to the outside world. We must use opening up to spur reform and development. In order to adapt to the increasingly international nature of economic development, Sichuan must take advantage of the fact that international capital and technology are presently extending into interior continental regions. We must open up further. Not only must

we invite foreign firms into China, but our own enterprises must also reach beyond China's borders. In our work to achieve opening up next year, Sichuan must work hard for breakthroughs in three areas. First, there must be a breakthrough in efforts to attract foreign funds and open up the enterprise market. In this regard, we must further liberate our thinking, more boldly import and cooperate, open up the enterprise market, and attract foreign firms to contract out and rent currently existing enterprises. The provincial government will need to organize several large-scale activities aimed at attracting foreign investment. Second, there must be a breakthrough in efforts to expand imports and exports. We must inculcate the idea of large-scale foreign trade and large-scale markets. We must focus on efforts to attract foreign firms to invest in infrastructure, development of entire tracts of land, and cooperation in large high tech projects. Third, there must be a breakthrough in the experimental establishment of "window enterprises." Not only must we attract foreign firms to China, but we must also enter the international marketplace. Provincial and regional companies must operate beyond China's borders, joining forces in a planned manner with firms abroad, thereby taking a strategic step forward in moving toward the world marketplace. The development of township enterprise must be made a major, strategic focus of the entire province's economic development effort. We must support their development with extraordinary policies.

Fourth, we must improve production scheduling and focus on improving product quality. With the development of the socialist market economy, economic development will accelerate, and conflicts involving transportation, energy, funds, and raw and semi-finished materials will become more pronounced. This will pose new and more exacting demands upon production scheduling and upon arrangements for the manufacture of key products. We must also liberate our thinking with respect to production scheduling. We must maintain a scientific spirit and strengthen macroeconomic scheduling in a manner consistent with market demands. Not only must we resolve last-minute problems, but we must also be forward-looking and build up reserves which will enable us to carry out production schedules. If we are to achieve our goals of achieving relatively rapid economic development and relatively good economic benefits in Sichuan, then we must focus on the quality of products and services. "Quality is Sichuan's lifeline." We must make a clear commitment to quality, and we must implement the responsibility system all the way down to the individual.

With deep feeling, Pu Haiqing said that now that the 14th National Party Congress has adopted the program of establishing a socialist market economy, the key thing is to roll up our sleeves and get to work. Under the leadership of the Provincial Party Committee, the people of the entire province must liberate their thinking and open up across the board to the outside world. Enterprises must be freed from excessive government regulation. The government must change its function,

and enterprises must change their mechanisms. We must focus sharply on infrastructure, upon the development of unique, key products, upon technological upgrading at key enterprises, and upon development of the hot-selling products of the future. We must focus upon development of township enterprises, urban collective enterprises, and individually run enterprises. We must focus upon scientific and technological development, and the establishment of markets. If we get down to work and struggle for a few years, Sichuan's economy can certainly leap to a new level.

## FINANCE, BANKING

### Government, Banks Urged To Support Technology Upgrade

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25 Nov 92 p 1

[Article by Wei Zhaogui (7614 0340 6311): "Financial Ministry, Tax Department, and Banks Urged To Work Together To Promote Technological Transformation"]

[Text] Changing enterprises' management mechanisms and promoting their technological advancement are ways to vitalize them, and yet today, China's industrial and transportation sectors are finding it extremely difficult to upgrade their technologies. Turn over of bank technological transformation loans has slowed by the year, and credit fund has grown increasingly risky. We have cause to be alarmed.

To spur industrial and transportation enterprises' technological progress, China's Industrial and Commercial Bank began granting technological transformation loans in 1979, and up to the end of September 1991, it has lent 140 billion yuan to 121,000 technological transformation projects, accounting for 62 percent of the state banks' technological transformation loans. At the end of September 1991, nearly 110,000 projects have been completed, adding more than 540 billion yuan in total output value and more than 101.2 billion yuan in profit tax and saved more than \$11 billion in foreign exchange. They have contributed tremendously to the national economy.

What is of concern is that currently, the turnover rate of technological transformation loans has become increasingly slow, the rate of overdue-loans has crept up, and more and more interests are just put on account but not paid. These seriously undermine fund-use efficiency. Reportedly, in 1985, Industrial and Commercial Bank's technological transformation loan recovery rate was 30 percent but has declined steadily since, falling to 19 percent in 1991. For the loan funds to circulate once around, it took 3.33 years in 1985 but has taken increasingly longer since, slowing to 5.3 years in 1991. Based on Beijing's Industrial and Commercial Bank's technological transformation loan balance, if loan turnover rates had been faster by a year in 1990 and 1991, the bank could have recovered 180 million yuan more. This demonstrates that accelerating the loan turnover rate is a critical link in increasing credit fund-use efficiency.



This reporter has learned that the new tax categories have increased enterprises' economic burden, which is a key factor in the slowed technological transformation loan turnover rate and poor fund-use efficiency. According to a survey by a relevant State Council department of 193 state-run enterprises, in 1989, they handed over a total of 5.351 billion yuan in sales tax, which accounted for 56.1 percent of the realized profit tax—29 percent more than 1986's. The actual ratio changed from 48.8:51.2 in 1986 to 56.1:43.9 in 1989, and this accounted for enterprises' diminished ability to use the profit generated by the loan-financed projects to pay off their debts.

Enterprises' reduced after-tax profit is another important factor affecting the normal circulation of technological transformation loans. According to regulations, after enterprises deliver their profits as required, they are free to determine the use of their retained profits. In reality, such retained profit is very meager, however. The 193 enterprises surveyed indicated that 81.6 percent of their profit tax was handed to the financial departments in the form of taxation, profit, fees, and bonds, and 10.2 percent was used to repay various bank loans, which left them with only 8.2 percent in retained profit, down from 26.2 percent in 1986.

According to another report by Beijing Industrial and Commercial Banks' Credit Department, the Ministry of Finance has also imposed more restrictions on how enterprises should repay their debts, which sowed the seeds for the slowed loan turnover rate.

Recently, the Credit Department of Beijing Municipality's Industrial and Commercial Bank held a symposium to discuss technological transformation loans. Those who attended suggested that forging new productive forces through technological transformation loans is enterprises' hope for the future. The Ministry of Finance, the tax departments, and banks should work together to promote enterprise technological advancement. The financial and tax departments should steadfastly implement the general principles of "giving before taking back" and "letting water in the pond to raise fish" and formulate measures to reduce enterprises' burden and increase fund input and so on. Banks must insist on making efficiency the heart of their loan policy and vigorously promote adjustments of the industrial structure and the product mix to give momentum to enterprise development. They said that if the trend of slowing turnover rate of technological transformation loans could not be curbed, not only would banks have trouble recovering loans but large sums of interest payment would remain in the books which would jeopardize banks' ability to fulfill their profit quota, and it would also prevent enterprise technological loan funds from being put back into circulation, which would diminish enterprises' ability to undertake renovation and upgrading. To put the loan recovery policy into effect, the most urgent task today is to rectify the situation where banks have no say when it comes how much economic efficiency the new loan projects must generate

and how much of the loan must be paid back. The Financial Ministry and banks together should check and confirm all loans, and they must uphold the principle of "whoever put in the money is entitled to the benefits," so that the economic benefits generated by banks' technological transformation loan-financed projects can be used to repay loans first. At the same time, enterprises, banks, and the Financial Ministry should share the economic benefits of the technological transformation projects proportional to their share of input, and they should also share the risks, so as to encourage enterprises to raise their own funds and the Financial Ministry to put in more funds. This will also enable the banks to recover the loans when due.

### Foreign Banks Play Important Role in Xiamen

93CE0191B Beijing ZHONGGUO SHUIWU BAO  
in Chinese 22 Oct 92 p 2

[Article by Lu Mingliang (7120 2494 0081) and Mao Weihong (3029 5898 4767): "Foreign-Owned Banks Compete To Get Into Xiamen"]

[Text] In Nov 1985, the nation's first Sino-foreign joint venture bank—Xiamen International Bank—opened in the Xiamen SEZ.

Since then, with the approval of China's relevant departments, eight other banks from Hong Kong, Singapore, the United States, France, Great Britain, and Japan and other nations and regions have opened branches or permanent offices in Xiamen. This year, again, several foreign-owned financial institutions put in applications to open branches, permanent offices, or financial companies in Xiamen. The Xiamen SEZ has become the ideal place where foreign financial institutions are competing to get in so that they can develop their overseas operations.

Wholly and partially foreign-owned banks' entrance to Xiamen has played a role in promoting China's economic development. In the four years from 1988 to 1991, they granted a total of \$526.61 million in foreign currency loans, accounting for more than one-third of all foreign exchange bank loans in the area. Their total foreign exchange deposits came to \$159.43 million, accounting for about 10 percent of all foreign exchange bank deposits in the area. Their foreign exchange loans exceed their foreign exchange deposits by \$367.18 million, and their loan scope has reached beyond Xiamen to Fuzhou, Quanzhou, Tianjin, and Xian and other areas. They have provided China's economic development with a substantial sum of foreign exchange and an important way to absorb and utilize foreign exchange. The entrance of wholly and partially foreign-owned banks has also promoted Xiamen's restructuring of the banking system and has transformed the once internally oriented, homogeneous banking system into an externally oriented, diversified system. They have smashed the setup where foreign exchange businesses were once monopolized by domestic banks, and the introduction of

the competitive mechanisms has also vigorously promoted the expansion of the business scope of domestic banks and has improved services.

Most transnational banks have reputation and experience and are fairly modernized, and therefore their business scope and profit have increased significantly since their arrival. Xiamen's wholly and partially foreign-owned banks had \$6.62 million in foreign exchange deposits in 1987, which grew to \$47.52 million in 1991, averaging a 1.58 fold-increase a year. Their foreign exchange loans also grew from \$44.39 million in 1987 to \$114.45 million in 1991, averaging 1.58 folds a year. Their export-generated foreign exchange and export-related exchange payments also increased an average of 1.59 folds and 1.67 folds a year. Their business income grew from \$5.83 million in 1987 to \$31.42 million in 1991, increasing 1.45 folds a year. Because the wholly and partially foreign-owned banks' business scope has continued to expand, their profit has grown from \$1.36 million in 1987 to \$19.42 million in 1991, averaging 1.9 folds a year.

To support and promote the development of wholly and partially foreign-owned banks, Xiamen City's tax department has worked diligently to implement the state's foreign-related tax laws and has put some preferential tax policies into effect. For example, from the day a bank opens for business, if approved, it pays no or reduced unified industrial and commercial tax for a certain period of time; if a branch of a foreign-owned bank has received an amount equivalent to 40 million yuan RMB in foreign exchange as operating fund which is considered capital investment and it pays no interest on it to the main office, it is entitled to exemption from enterprise income tax in the first year and pays half the tax in the next two years, beginning from the year it makes a profit. These and other preferential tax treatments and the good business environment have resulted in greater profit for the wholly and partially foreign-owned banks. A foreign-owned branch bank—the Xiamen branch of Hong Kong's Chiyu Bank—which opened in January 1986 had HK\$768,000 in business earnings that year; it grew to HK\$344.4 million in 1991. Its total exemption from unified industrial and commercial taxes came to HK\$2.54 million. It lost HK\$650,000 in 1986 but began to make a profit of HK\$548,000 in 1987 which grew to HK\$9.84 million in 1991, increasing 17-fold in five years.

As Xiamen City's wholly and partially foreign-owned banks developed, the taxes they pay has also increased many folds. In the three years between 1989 and 1991, the city's wholly and partially foreign-owned banks paid a total of 116.8 million yuan RMB in taxes (not including personal income regulation tax and personal income tax), increasing at a rate of 142 percent a year. Xiamen International Bank and the Xiamen Branch of Chiyu Bank have become big taxpayers paying in excess of a million yuan in taxes a year.

In the wake of more thorough reform and opening up, more and more foreign financial institutions are coming

to Xiamen to invest. To cope with this development, Xiamen City's tax department has worked relentlessly to do a better job collecting and managing the wholly and partially foreign-owned banks' taxes. Because these banks are from different nations and regions, they use different financial and accounting methods and almost all are using computers to keep track of their accounts, and in order to network with the main offices' computers, they are using foreign software, and their accounting documents, books, statements are in foreign languages. To deal with the situation, Xiamen City's tax department has selected cadres who speak foreign languages, are familiar with computers, and are highly competent to serve as specialists to provide tax guidance and help them set up and improve their financial systems according to China's foreign-related tax laws and accounting system. In the first six months of this year, in computing and settling foreign-invested enterprises' income tax for 1991, the tax department put the emphasis on checking the wholly and partially foreign-owned banks and adjusted and collected 5.89 million yuan RMB in additional taxes in accordance with China's foreign-related laws and regulations.

#### **Jin Xin Hails Export Tax Rebate Policy**

93CE0191C Beijing ZHONGGUO SHUIWU BAO  
in Chinese 16 Nov 92 p 1

[Article by reporter Cai Hongli (5591 3163 0448): "Jin Xin (6855 9515) Points Out At the National Conference on Coordinating Taxation and Trade That Export Tax Rebate Is a Good Policy—Five Ways To Coordinate Taxation and Trade"]

[Text] Export tax rebate has vigorously supported and coordinated with China's restructuring of the economic system and has promoted the nation's economic development. Practice proves that implementing tax rebate is a good policy. We must steadfastly uphold this work, and in the future, we must promote better coordination between taxation and trade and bring export tax rebate work onto a new level. This was what Jin Xin, chairman of the State Administration of Taxation, emphasized at the recent National Conference on Coordinating Taxation and Trade.

Jin Xin said the State Council's decision to use export tax rebate to gradually phase out financial subsidies has facilitated the smooth process of the restructuring of the foreign trade system. First, it has smashed the system of eating out of the big pot that had been with us for many years, and it has helped foreign trade enterprises gradually convert to those operating mechanisms which allow them to make their own management decisions, take care of their own profits and losses, develop on their own, and discipline themselves. Secondly, export tax rebate's automatic regulating mechanisms have drawn China's foreign trade closer to the international economic and trade system and have helped China's foreign trade enterprises meet the needs of the country's development of the socialist market economic system. Today, China's foreign trade is accounting for a growing share of

the international market, and as the export volume continues to expand, the amount of export tax rebate will continue to grow year after year. No doubt, implementing export tax rebate is an important factor in promoting foreign trade development and is indispensable if China's export trade is to further develop.

As to how to further promote the coordination between taxation and trade and make tax rebate work meet higher standards, Jin Xin emphasized five points:

One, we must be even more conscious about putting export tax rebate work on the agenda. Export tax rebate is an import part of taxation and is also an important part of our foreign trade work. Tax departments at all levels must tackle tax rebates the same way they tackle tax collection, and the economic and trade departments must tackle tax rebate like they tackle export to earn foreign exchange. Export tax rebate is a new task assigned to taxation by reform and opening up and is a new component in macroeconomic regulation and control. The result of tax rebate is expanded export trade which increases the nation's foreign payment ability, and increased domestic productions helps to broaden the source of tax revenues even more.

Two, we must provide good service and forge closer cooperation between taxation and trade. Such cooperation must be based on the principle of correctly implementing the export tax rebate policy and strengthening tax rebate management. Even though the tax department and the economic and trade department concentrate on different areas of work, when it comes to export tax rebate, their work must envelope this principle. In particular, it is important to emphasize that the tax department must develop the concept of providing good service and they must organically integrate service and supervision, and within the scope specified by state policies and regulations, they must make things as convenient for enterprises as possible.

Three, we should improve the export tax rebate system and perfect the export tax rebate mechanisms. The existing export tax rebate mechanisms are not perfect nor sound. Because for most export goods, taxes are collected in localities different from where they are exported and where the foreign trade enterprises keep their accounts, it is very difficult to accurately figure out the types, the quantity, the price, and the taxes of the export goods in the final link where the tax rebates are determined. The existing method of using "two receipts, two stubs, and one proof" as proof for obtaining rebate does to a certain extent link tax collection, export, and tax rebate together, but we still lack a more legally effective organic means to integrate the entire export production and management process. For this reason, it is imperative that we reform the existing system and develop a stable, scientific, and tight tax rebate mechanism. This mechanism must have (a) a sound system; (b) strict management; (c) modern management means. The three are organically integrated and none is dispensable.

Four, we must strictly enforce all policies and regulations to strengthen tax rebate management. To strengthen tax rebate management, we must begin in two areas: (a) We must strengthen tax rebate infrastructure, tighten procedure and the system, increase work efficiency, and process the tax rebates promptly and make payments in full. (b) We must adopt effective measures and take strict precautions against and crackdown harshly on illegal acts of cheating on tax rebates. Tax rebates are predicated on tax collection, and to strengthen tax rebates, we must first do a good job collecting and managing export taxes. We must fully recognize the permanent and complicated nature of the struggle between tax evasion and counter tax evasion, and we must severely punish and never indulge those who cheat on tax rebate.

Five, we must improve the tax rebate management organs. Localities with substantial tax rebate work should seek permission from the local governments and personnel assignment commissions to set up an import-export tax management office in the provincial, municipal, or autonomous regional tax departments. Even localities with not much tax rebate work should set up section-level management organs or assign enough specialized managers to do the work.

#### **Foreign Experts Discuss Tax System Reform**

93CE0191D Beijing ZHOUGGUO SHUIWU BAO  
in Chinese 23 Nov 92 p 3

[Article by Sui Yan (7131 4282): "Chinese and Foreign Financial and Tax Experts Discuss China's Tax System Reform—Summary of 1992's International Symposium on Comparative Tax Systems and Tax Policy Management"]

[Text] The "International Symposium on Comparative Tax Systems and Tax Policy Management" sponsored by the Ministry of Finance was held in Qingdao on 17-24 September 1992.

Some 67 experts and scholars from the International Monetary Fund, European Community, the United States, Holland, France, and other nations and organizations and the State Council's Development Research Center, the State Commission on Restructuring the Economic System, the Ministry of Finance, the State Tax Bureau, and some provincial and municipal financial and tax departments and bureaus, research institutes, and colleges and universities were invited. The following is a summary of the main points of view expressed at the symposium:

#### **1. Coordinating With the Market Mechanisms Is the Inevitable Trend of China's Tax System Reform**

The delegates maintained that although China has made important progress with its reform of the tax system, because the existing tax system had evolved from the traditional system, it is inevitable there are urgent problems that need to be resolved immediately. Primarily: (a) tax revenue as a percentage of the GDP is too low, and our tax system is inflexible; (b) the tax structure is poor, because we have two sets of tax systems, one for Chinese

and one for foreigners; (c) enterprises' tax burden is unbalanced and tends to protect "ineffective" enterprises; (d) the tax system is unsound and the power to tax is too dispersed. As the role of the socialist market mechanisms further expands and the reform to change enterprises' mechanisms becomes more thorough, instead of managing the economy directly, the government will turn to indirect regulation and control.

Thus, how to better coordinate the tax lever, as a means for the state to regulate and control the economy, with the market mechanisms has become an important issue before us. The trend of tax collection worldwide seems to be to avoid interfering unnecessarily with the economy, and the development is toward a moderate tax system with lower tax rates, simpler procedure, and tighter management.

## **2. The Goal and Principle Behind China's Tax System Reform Is To Close Ranks With International Practices**

The delegates maintained that in the wake of the development of the socialist market economy, the market has become the basic means to allocate resources. Therefore, while China's tax system reform must meet the needs of the development of the socialist market economy, it must also close ranks with international practices. With regard to the goal and principle of tax system reform, the foreign experts suggested that they should have the following qualities: (a) Fairness, meaning the same class of taxpayers should be treated the same way; there can be no tax discrimination. (b) Neutrality, meaning that the new tax system should cause minimal distortion in the taxpayers' market decisions. (c) Simplicity, meaning that it should be easy for the taxpayers to understand and to comply with and should be easy to administer. (d) International compatibility, meaning that the new tax system should facilitate international trade and international capital circulation. The Chinese delegates suggested that the tax system reform goal and principle can be summarized into the following: (a) To give play to taxation's income-gathering function, and specifically this means expanding the tax base, setting up a better tax structure, and improving collection and management. (b) To guarantee the normal functioning of the market, which means creating a tax environment that guarantees fair market competition. (c) To take social justice into consideration and give expression to the principle of assigning burden according to ability.

## **3. Changing Our Financial Management Concepts and Adopting New Tax Administration Ideas**

Delegates who attended the meeting suggested the traditional taxation theories were almost all formulated based on the planned economy or a predominant planned economy, and they are no longer suitable in China's present circumstances with the development of the market economy; they urgently need to be overhauled. Some delegates even suggested that we "remold our taxation thinking."

Specifically, we must smash the traditional concept of centralized control of revenue and expenditure and the

traditional mechanism of "eating out of the big pot" which were created in the planned economy. We should utilize taxation as a means to help the state-owned enterprises change their management mechanisms and promote the formation of a unified market. We must smash the traditional concept of using administrative means to direct everything and establish a new concept of using economic and legal measures to solve problems. We must change the arbitrariness in the way tax laws are legislated and enforced caused by the traditional planned economy and establish a new concept of tax administration according to the law. With respect to changing our tax administration thinking, the delegates mainly discussed the following viewpoints: (i) Most delegates expressed the need to rectify the relationship between taxation as a means to generate income and as a means to regulate the economy and to put the former first. The foreign experts especially emphasized that taxation cannot have multiple goals, because many goals may be incompatible with each other, thus rendering them impossible to achieve. Taxation should interfere with the market as little as possible. But some delegates had other ideas. They maintained that so long as the market mechanisms are not fully developed, taxation should still be the principal means of regulating and controlling the economy and should give expression to the state's industrial policy. (ii) When using taxation to regulate the economy, the focus should be on creating an environment for fair enterprise competition, with special emphasis on remedying the flaws in the market mechanisms. The Chinese and foreign delegates were unanimous in pointing out that upholding the neutrality of taxation is the basic condition for deepening the reform of the tax system, and they suggested that taxation should primarily be used to gather income; regulation and control of the economy is a supplementary function. (iii) If taxation is used to regulate the economy, it should be legislated. Whether and how much tax should be imposed should not reflect preferential treatment of certain enterprises. Some delegates suggested that China is vast in territory and there are huge differences among regions, and therefore the tax policy should be fairly flexible. (iv) We should emphasize the indirect nature of circulation tax and change the practice of including taxes in the price of goods and services, and we need to further smooth out the relationship between taxation and prices.

## **4. Establish a New Tax System Which Is Compatible With the Socialist Market Economy**

The delegates suggested that we formulate a new tax system that is compatible with the socialist market system. This mainly should include the following: (a) Perfecting the circulation tax system: The ideal circulation tax system for China is to add a product tax (or consumption tax) on top of the general value-added tax for some products to form a two-tier crisscrossed regulation system. Mr. Gandhi of the International Monetary Fund suggested that because value-added tax is characterized by its "neutrality," its emphasis should be on gathering revenue for the state; it is not meant to be used too much to adjust the industrial structure. As for the

actual application, most delegates suggested that the scope of collection of value-added tax should be extended to the entire industrial production link and commercial wholesale link and that there should be only two or three different rates; the tax withholding scope should be made uniform. They suggested that we implement a "Law on Tax Withholding For Purchases At Tax-Excluded Prices" and, as soon as possible, promote the tax withholding system which uses invoices that state the amount of taxes paid, and they said we should continue to impose a business tax in the retail link. Some delegates maintained that as price reform progresses, reform of the value-added tax should be achieved in just one step, which means imposing a value-added tax in the industrial production, commercial wholesale, and retail links comprehensively. A handful of comrades suggested that the scope of China's value-added tax should be expanded only to the entire industrial production link, because reform of the value-added tax must be considered together with the reform of the entire system of indirect taxation and the price reform and because we are not doing a very good tax collection and management job, so that conditions are not ripe for implementing a comprehensive value-added tax. (b) Establishing a unified enterprise income tax system: The delegates agreed unanimously that reform of China's enterprise income tax system must "start from scratch." Most delegates agreed that income tax reform should aim to unify the pre-tax itemized expenditures and standardize costs and expenses and impose a uniform proportional tax rate (33 percent.) Low-profit enterprises with 30,000 yuan and 30-100,000 yuan income should be given tax breaks at 15 percent rate and 24 percent rate, respectively. When it comes to the actual procedure, one viewpoint suggested that we need to gain essential experience in tax collection before making foreign- and domestic-owned enterprises' income taxes uniform and before setting up a legal entity income tax system. Another suggestion is to set up a legal person income tax system in one step. (c) Perfecting the personal income tax system: The delegates suggested that the three existing kinds of individual income tax must be promptly made uniform. But as for how, one viewpoint is that considering the difference in actual pay between foreign and domestic workers, we should set different expense deduction standards but keep the income tax rates uniform. Another viewpoint is that personal income tax reform should unify expense deduction standards but, because of foreign and domestic personnel's pay difference, different tax rates should be used—that is, impose 5 to 35 percent tax on general wages; foreign nationals may keep the old tax rate; individual industrial and commercial households are subject to 5-40 percent income tax. Tax collection is generally controlled at the source and paid through withholding or by agents, and on top of that, we should actively create the conditions for a pilot project using personal income tax declaration forms. (d) Simplifying and merging some tax categories and installing new tax categories to gradually perfect the tax structure: The delegates suggested that in the wake of economic development and as the tax sources change, we

should seize the opportunity to readjust the tax structure. Specifically, we should expand the scope of resource tax and study the feasibility of imposing a social security tax, negotiable security exchange tax, capital gains tax, estate tax, and gift tax, and, at the same time, we should gradually eliminate the unified industrial and commercial tax, the banquet tax, and livestock exchange tax and so on.

#### **5. Delineate the Power of Taxation Properly and Implement a Classified Tax System.**

The delegates agreed unanimously that China has already developed a preliminary form of separate management in the allocation of central and local financial resources, but the existing pilot project inevitably has traces of the old system. We must learn from foreign advanced experiences to accurately delineate the authority of the different levels of government, and thereupon we can properly delineate the power of taxation.

On the question of how to delineate the power of taxation, one viewpoint is that the power to legislate central taxes and shared taxes should be controlled by the National People's Congress; local taxes may be legislated in two ways: The power to legislate taxes that generate substantial income and have a relatively large impact on the national economy should be controlled by the central authorities, but in determining the tax categories and tax rates, the central government should leave some room and let the localities determine the appropriate tax burdens based on actual local conditions. The power to legislate local taxes which are levied only locally should be in local hands. Another viewpoint maintained that regardless of whether we are dealing with central or local taxes, the legislative power should be controlled by the central government, but within the scope specified by the central government, local governments should have the power to determine the categories and rates of local taxes. Another viewpoint is that the power to legislate central taxes, including the power to introduce, impose, rescind tax categories, should be in the hands of the National People's Congress; interpretation of the tax laws and other administrative jurisdiction should be controlled by the state tax departments, while local tax management rights should be concentrated in the hands of the local governments. As for the classified tax system, most delegates agreed that China's classified tax system should be divided into central, local, and central and local shared taxes. The central authorities should have jurisdiction over the central taxes and control the way the revenues are allocated; local governments should have jurisdiction over local taxes and control the way the revenues are allocated, so as to integrate power, responsibilities, and privileges. As for the control of shared taxes, one viewpoint suggested adopting the German format, which is to separate the money but not power, which helps to make the policy uniform. Another viewpoint suggested adopting the United States' and Canada's format of revenue-sharing

while keeping tax collection separate. A third idea suggested a radical classified tax system with no revenue-sharing at all.

#### 6. Develop and Perfect China's Local Tax Systems

The delegates suggested that the existing local tax systems made up of tax categories that generate little income from scattered tax sources no longer give the local government sufficient financial means to exercise the power of their office. It has become imperative that we develop local systems that are compatible with the classified tax system. Some delegates suggested developing a compound local tax system which takes into consideration the local people's benefits. They suggested that the local tax categories be included, (a) property tax, estate tax; (b) employment tax; (c) sales surtax. Some delegates even suggested that China's local tax system should comprise primarily of the personal income tax, social security tax, and property tax and supplemented by some special purpose taxes. The delegates also focused on the characteristics of separate local systems and proposed installing local tax organs.

### INDUSTRY

#### Industrial Society President on Improving Industry

93CE0147A Beijing JINGJI RIBAO in Chinese  
15 Nov 92 pp 1, 2

[Article by Lü Dong (0712 2639): "Grasp the Opportunity To Raise China's Industry to the Next Level"]

[Text] The victorious 14th Party Congress has achieved a great, new milestone in Chinese people's path toward progress. If we are to implement the spirit of the 14th Party Congress and carry the economy to a higher level, industry must be developed. Our studies indicate that in order for industry to advance to a higher level, there are 10 issues we should concentrate on.

**1. Learning to use the market mechanism.** Establishing a socialist market economy is an objective requirement if we are to free up and develop the social forces of production. The adoption of this goal for reform signifies an intention to make markets, within the framework of the state's macroeconomic regulation and control, play the fundamental role of resource allocation. Economic life must respect the law of value, the law of competition, and the law of supply and demand. The role of the market as a clearinghouse for information on the economy must be fully tapped so it can flexibly and efficiently regulate economic activity and spur enterprises to continually upgrade technology, conserve resources, and raise productivity. This will bring about an economy which seeks better quality, economic benefits, conservation of resources, and technological progress. In this manner we will fundamentally resolve the disequilibrium of China's economic structure and the problem of low economic benefits, and we will change the lackadaisical manner in which China's industries are managed.

Establishing a socialist market economy is an arduous and complex social systems engineering project; it requires a long-term, meticulous effort and a number of coordinated reforms. In terms of organizing industrial production, the most pressing tasks at this point are to: learn how to use the market mechanism; act in accordance with the requirements of the socialist market economy; take our cues from market demand; inculcate the concepts of large-scale production, large-scale markets, and large-scale circulation; and see to it that production is truly guided by marketplace. These tasks are just as important to government agencies in charge of economic management as they are to enterprises. If the government is to change its function and strengthen its macroeconomic management, it must place top priority on regulation and control of markets, and it must focus on developing a unified, open, and competitive socialist market economy. If enterprises are to change mechanisms, they must become legal entities and participants in marketplace competition; they must possess real autonomy, take responsibility for their own profits and losses, use their own resources to develop, and be self-disciplined. They must organize production and business operations on their own in a manner consistent with market demand. They must study both real and latent demand. They must be oriented toward the marketplace, expand markets, guide markets, and strengthen marketing work. At this time, markets need to be expanded in two areas. One is in rural areas, with a population of 900 million people. Enterprises must carry out production in accordance with the needs of peasants, use every stratagem possible to open up channels for their products to reach the marketplace, and expand interchange between the cities and the countryside. The second area where expansion is needed is international markets. The value of China's manufactured exports accounts for a very low percentage of the world total. We must take full advantage of our low labor costs to expand exports. We must grant large, key enterprises autonomy over trading operations, including imports, exports, and the establishment of multinational companies, so they can participate directly in international competition.

**2. We must stress the importance of scientific and technological progress.** Ever since the Third Plenary Session of the 11th Central Committee, China's industry has concluded tens of thousands of import deals involving the purchase of advanced technology from abroad. At the same time, Chinese enterprises have strengthened in-house scientific research units, and have stepped up technological cooperation with outside research organizations, enabling the technology of Chinese industry to reach a new level. During this time, scientific research units have also aggressively joined the battle to build up the economy. They have established many high tech zones and high tech enterprises. A number of vibrant enterprises and high tech products have come into existence. We must also recognize that throughout China's industrial enterprises the will to push for scientific and technological is severely inadequate, and the momentum of this progress is not great enough. An



important reason why many enterprises are posting losses, whether reported or disguised, is that they have not yet understood the tremendous role played by scientific and technological progress, or they have failed to treat it as the lifeline of their business in spite of their awareness of its importance. The result is that they lack the product series necessary to capture markets.

From an overall standpoint, there are three ways to spur the progress of industrial technology and to carry the technology of existing enterprises to a higher level. 1) The first way is to insist on combining research and production. Enterprises must act on their own to develop new products, new manufacturing processes, and new technologies. Relying mainly on existing large-scale enterprises (groups), we must persuade scientific research units and institutions of higher learning to get involved with enterprises to integrate scientific research and production. Or scientific research units themselves can act on their own or cooperate with a partner to set up enterprises which will develop high technology and convert scientific and technological breakthroughs as quickly as possible into productive forces, thereby converting scientific knowledge into products and industrial activity. 2) The second way is to import advanced technology from abroad so we can begin at a higher starting point in our effort to improve technology and narrow the gap between Chinese and advanced foreign technology. 3) The third way is to set up joint ventures, bring in high technology, and improve the structure of our industrial technology. Any province or municipality with a relatively high concentration of large- and medium-sized enterprises should have a comprehensive plan in this regard. If industry is to advance to a higher level, science and technology must first advance to a higher level.

**3. Change the operating mechanism of enterprises under the ownership of the whole people.** Looking at the current situation, the core element of the effort to change the enterprise operating mechanism is the need for enterprises to attain operational autonomy. People at all levels have struggled over 10 years to achieve this goal. The State Council has now promulgated the "Bylaws on Changing the Operating Mechanism of Industrial Enterprises Under the Ownership of the Whole People," which provides new, clear regulations in this regard.

Implementing the Bylaws is the focus of our current economic work. We must put our all into it, and take concrete steps to solve concrete problems. Recent studies indicate that enterprises under the contract management responsibility as well as those experimenting with shareholding systems or other forms of operations must attach importance to resolving the problem of their inability to plow funds back into the business. At this time, enterprises have too few funds on hand. About 80 to 90 percent of net enterprise income is handed over to the state in the form of taxes, profits, fees, and bond purchases. In addition, writeoffs for depreciation and development have been restricted to a very small amount. There are few funds left over for enterprises to plow back

into the business. When enterprises lack the ability to reinvest, they cannot take advantage of their operational autonomy.

Many enterprises are faced with a choice: do not reinvest, and the enterprise will go under; reinvest, but only with bank loans at very high interest rates, and end up "working for the bank." The reason why foreign-invested enterprises, township enterprises, and even high tech and school-run enterprises have been harder than state-run enterprises is that such enterprises have enjoyed several years of tax exemptions and reductions, and they have been able to write off depreciation and development expenses as they see necessary for the development of production. They have had the ability to recoup such expenses and develop themselves. State-run enterprises, on the other hand, do not have this mechanism, and it is becoming more and more difficult for them to repay loans. There is a similar problem with working capital. Summing up the positive and negative experience of recent years, we see that if state-run enterprises are to retain any vigor, the distribution of funds between the state and these enterprises must be changed, and an enterprise loan repayment mechanism must be established by increasing depreciation and development write offs.

**4. Work to improve economic benefits for enterprises.** People have been talking for years about how low enterprise economic benefits are, but the problem has not been adequately resolved. Apart from such external factors as fluctuating prices, exchange rates, and interest rates, the fundamental causes are excessive consumption of raw materials, poor quality, and increased costs. We once stated in an article in 1990 that enterprises in China need to change their careless style of business operations. Unfortunately, true consensus is still lacking on this point, and the old style of careless management has not noticeably improved. In order to improve enterprise economic benefits, as far as internal enterprise issues are concerned, three things must be done.

1. The first is to improve quality. This is the eternal theme of industry and economics. It has been calculated that poor quality has resulted in wastage amounting to over 200 billion yuan. With the development of the socialist market economy, enterprises must produce high-quality, low-cost products with good selection if they are to survive in competition or achieve continually increasing economic benefits. To do this, they must focus on science and technology, strengthen enterprise management, strengthen oversight work, and strike hard against fake and shoddy products.

2. The second is to make intensive use of human labor. At this time, excess personnel generally account for about one-third of all personnel in state-run enterprises. The goal of enterprises is supposed to be to seek profit, but they have been forced to sacrifice this goal in favor of providing employment at the cost of lower efficiency and economic benefits. If productivity is to be improved, we must be determined to solve the problem of multiple enterprise goals and excessive personnel. Except for

some public institutions, special industries, and special enterprises, economic benefits should be the only standard against which to measure state-run enterprises. We must establish tertiary industry enterprises and enterprises under diverse management systems in order to gradually transfer excess personnel. We absolutely must further the reform of labor, personnel, and distribution systems so as to closely link the interests of managers and workers to those of the enterprise. We must truly distribute compensation to laborers in a manner commensurate with their achievements, and we must evaluate managers on the basis of their management performance. The competition mechanism must be introduced into enterprises.

3. The third is to make intensive use of materialized labor. It must be realized that enterprises waste large amounts of both energy and raw materials. The aggregate materials consumption ratio for Chinese industry is 72 percent, or 7.8 percentage points higher than in 1978. How can society withstand such a high materials consumption ratio, and how is industry to move to a higher level under such circumstances? If consumption is to be reduced, the most important thing is to rely on technological progress. The efficiency and utilization rates of equipment in China are too low at this point. Outmoded production processes cause excessive consumption. There is enormous potential in these areas to save energy and reduce consumption. In addition, we must rely on rigorous and scientific management, complemented by policies to reward such management. In this way we will have great hope improving enterprise economic benefits.

**V. Work vigorously to develop township enterprises.** Township enterprises play a decisive role in China's industrial economy, but we must be aware that township enterprises are very unevenly developed. Areas in central and western China need particularly to stress vigorous promotion of the development of township enterprises. If it can be accomplished, they should not wait; they should forge boldly ahead, as has been done in coastal areas. They should abandon the model of the past, in which enterprises were "like a sparrow—small but complete." They must broaden their horizons and move into the marketplace, not just local markets, but national and international markets, as well.

Arduous and painstaking work is required to develop township enterprises. In recent years, we have seen in our studies that many localities have accumulated a lot of experience in this regard. Some have established year-round rural markets which commonly spur development of a number of township enterprises and enable a number of peasants to get rich. Some localities have established key enterprises in a city which serves as the nucleus around which many township enterprises grow up. Some localities have set aside a given sum of money to serve as a township enterprise development fund, and they have extended concessionary fiscal and tax policies to township enterprises, as well. In some areas where township enterprises have been relatively undeveloped, they have targeted certain key enterprises and towns so

that the targeted entity can spur forward the rest. In some areas, they have stressed the importance of starting out at a high level of technology from the very beginning, importing advanced technology from abroad; as the saying goes: "get a chicken from abroad, let it eat Chinese feed, watch it lay golden eggs." Localities which have done this have enjoyed competitive advantages. In developing township enterprises, we must adopt a program which encourages: 1) simultaneous establishment of collective, merged enterprises, and individual enterprises; and 2) raising funds from diverse sources. At the same time, we must also establish a township enterprise service system, such as a consolidated supply and marketing service system, etc.

**VI. Open up across the board, strengthen ourselves.** If industry is to advance to a higher level, we must further open up to the outside world. A socialist market economy is an open economy; China's products will enter world markets, and products from around the world will inevitably enter Chinese markets. The ultimate goal of opening up to the outside world is to enable socialism to grow stronger than capitalism. By opening up, we will strengthen ourselves. We must boldly absorb and learn from all the fruits of human civilization. We must absorb and learn from all advanced management techniques, including those from advanced capitalist countries, which are in step with the laws of modern socialized production. Even as it imports advanced technology and management techniques, China's industry must also stress the importance of assimilating what it borrows, and it must work to improve upon what is borrowed. If we fail to do this, we always lag behind, slavishly imitating others. Particularly with regard to technology imports, we must carry out integrated management of our imports, assimilation, and innovation of foreign technology and management techniques. We must aggressively create the conditions necessary for success, and with regard to certain advanced technical fields, we must strive to achieve a gradual transition from primary reliance on imports to a primary reliance on our own efforts at development, thereby developing our own unique advantages in the fray of international competition which would allow us to switch from importing to exporting technology. We should think big.

**VII. Strengthen infrastructure.** The need to strengthen such infrastructure as transportation, energy resources, and telecommunication is a major issue in the effort to assure that industry will advance to a higher level, and to assure a new round of rapid growth in China. In order to strengthen infrastructure, in addition to the state weighting its investment toward infrastructural development, there are three issues which most urgently require attention. 1) One issue is the need to accelerate price reform, raise prices for primary products (which have long been too low), and gradually establish a large-scale market price formation mechanism. Price reform is indispensable. Without it, we are not likely to resolve the conflict between current price policy and industrial policy, and we are unlikely to achieve our goals of promoting development of basic industry and paring



down excessive consumption of energy and raw and semi-finished materials. Concurrent with price reform, we must also adopt effective measures to promote energy efficiency and lower consumption of raw materials. This is the most important step to be taken if we are to strengthen people's ability to cope with price reform. 2) The second issue is the need to bring into play the initiative of all levels of government. Funds must be raised from a variety of sources for investment in infrastructure. In a variety of key projects under the unified management of the state, local governments should be encouraged to adopt flexible fundraising tactics, such as making roads, electricity, and telecommunications pay for themselves. They could also link up with other areas and regions for the joint running of mines and factories. They should raise their own funds to strengthen basic industry and infrastructure. 3) The third issue is the need to attract foreign investment in infrastructure projects. For basic industry and infrastructure projects, the construction cycle is very long, and investments are large. This should be considered an important arena in which to encourage investment from abroad.

**VIII. Change the government's economic management function.** The socialist state has an economic management function, but the influence of the commodity economy has caused a long-lived misconception that management by the state means direct running of enterprises by the state. Since the beginning of opening up and reform, enterprise autonomy has seen some gradual expansion, but the relationship between the government and enterprises has not undergone a fundamental change. Enterprises do not yet enjoy complete autonomy over investment policy, pricing, marketing, personnel matters, wages, etc. Enterprises have yet to escape the status of government appendages; they remain extensions of government administrative agencies. When government organs everywhere are busy running enterprises, there can be no enterprise autonomy to speak of. In order to adapt to the requirements of the socialist market economy, we must change the government's economic management function as quickly as possible, and work to develop and perfect a market system which will collect and distribute economic information. We must establish a system of macroeconomic regulation and control which is conducive to both the bolstering of enterprises, and conducive to the orderly functioning of the economy, as well. We must study economic policy and formulate an economic development strategy. We must establish and perfect a social safety net. We must develop public facilities and public welfare institutions so as to lighten social burdens upon enterprises. The government, as a rule, should no longer run enterprises. It must not fetter them, but set them free and allow them to run themselves. Dialogue between the government and enterprises could, in general, occur via some medium such as industry associations, which represent enterprise interests. At the same time, these associations will have to perform the accounting, legal, oversight, and self-regulatory functions of any professional organization.

**IX. Further bring into play the initiative of people everywhere.** The task of modernizing industry belongs to the people; we must fully tap the initiative and creativity of people everywhere. Local governments and enterprises must demonstrate a pioneer spirit and strive to take the initiative in developing the economy. They must dare to act in accordance with the requirements of economic development, break away from bureaucratic restraints not in step with the times, and take paths no one has traveled before. They should boldly try out anything that helps to develop the socialist forces of production, increase overall national strength, and raise the people's standard of living. In areas where the central government has established policy, these policies should be fully utilized; if clear policy is lacking in other areas, they should still forge ahead; a lack of precedents does not mean a certain thing cannot be done. It is an objective reality that development will occur where the appropriate steps are taken; one can seize the initiative by examining the facts. In the socialist market economy, competition will inevitably be intense. Whoever adapts most quickly and successfully to competition, and whoever has the most acute understanding of how to start up new things, will take the lead.

**X. The quality of personnel determines the success or failure of any undertaking.** The establishment of a socialist market economy requires that we cultivate a generation of economic managers who can bring about a new set of circumstances; a generation of people who are both knowledgeable about modern economics and technology, and are adept at establishing a socialist spiritual civilization. We already have an experienced corps of economic management cadres—a group of enterprise leadership cadres who can organize and direct production and business activities extremely effectively—but many people have no experience or knowledge about a socialist market economy. They need to “get a new set of brains,” start learning again from scratch, and continually explore and resolve new issues. We must cultivate an enormous corps of personnel adapted to the requirements of a socialist market economy who are well versed in both the technical and human aspects of their work. Not only must they understand production and technology, but they must also know how to manage an enterprise, acquire information, and be brave enough to establish a presence in international and domestic markets. We cannot judge enterprise managers by the same standards that we evaluate administrative cadres; we must examine their actual achievements in production and business activities. We must resolutely implement the factory head responsibility system, gradually establish the image of the socialist business person, raise their social position, and see to it that people respect them. In order to overcome the current problem where, in some enterprises, no one is in charge, many localities have decided to let a single person serve concurrently as both factory head and party secretary, and practice has proven this has successfully enabled them to proceed forward with establishment of the two civilizations, and it has avoided a lot of petty bickering.

To accelerate industrial development; to accelerate the pace of reform and opening up; to strive to advance the economy to a higher level within a few years—this is the arduous and glorious historical task conferred upon the Chinese people. We must earnestly study and implement the spirit of the 14th Party Congress, take immediate advantage of opportunities, and follow forward even more resolutely on the path laid out at the 3rd Plenary Session of the 11th Central Committee. Furthermore, we must strive to advance more quickly and in a more appropriate manner.

### SMALL-SCALE ENTERPRISES

#### Township Enterprise Development in Central, Western Regions

93CE0190A Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 16, 18, 20 Nov 92 p 1

[Editorial: "On Accelerating the Development of Township Enterprises in the Central and Western Regions," Parts I, II, and III]

[Part I, 16 Nov 92 p 1]

[Text] Since reform and opening up, China's township enterprises have become a new force to be reckoned with. Their rate of development, their efficiency, and their contributions are obvious to all. As pointed out in Comrade Jiang Zemin's report to the 14th National Party Congress, they are "another glorious creation of the Chinese peasants." "They have paved a new road for shifting the rural area's surplus labor away from the land, bringing prosperity and gradual modernization to the countryside, and for promoting industrial and economic reform and development."

However, if we look at the regional distribution, the development of township enterprises is very uneven. They develop much faster in the eastern coastal provinces, but the central and western regions, which account for about two-thirds of the country's population account for only one-third of the output value of the nation's township enterprises. Township enterprises are the important mainstay supporting agriculture and the rural economy and are the main sources of the peasants' increased income. Currently, the overall level of economic and social development in the central and western regions is lagging behind that of the eastern region, and the gap is widening, but the main difference is not in agriculture but in township enterprises. The central and western regions are vast in area and have a large population and are the home to many minority nationalities. Therefore, accelerating the development of township enterprises in the central and western regions to gradually narrow the gap between the eastern and the western regions and vitalize the economy of the minority nationality regions can have very important economic and political implications. All along, because of natural conditions and many other constraining factors, agricultural development has been slow in the countryside in the central and western regions, and the masses have been

forced to concentrate their energy on agricultural development, especially on developing grain production, and for this reason, they have developed a fairly homogeneous agricultural structure. Since reform and opening up, and especially since the implementation of the contract responsibility system made up mostly of household contracts, things have changed dramatically. Through the arduous efforts of the masses of cadres and people, agricultural production has made great strides; grain output has increased significantly, and most of the local peasants are more than adequately fed and clothed. This change for the better has brought the central and western regions' rural economic work to an historical turning point: Now that most peasants have enough to eat and wear, our rural economic work must shift from focusing on agriculture alone to emphasizing both agriculture and township enterprises. We must pay as much attention to developing township enterprises as we did to agriculture and grain, so that agriculture and township enterprises can develop side by side. This is the objective need of the central and western regions' economic development and is also the fervent hope of the masses of peasants. Only in this way can the rural economy become even more prosperous and the peasants earn more money, so that they can embark on the road to becoming relatively well-off.

Will emphasizing the development of township enterprises as the focal point of rural economic work adversely affect the central and western regions' agricultural development? Certainly not. Practice has proved beyond any doubt that township enterprises are the main impetus behind agricultural development and behind the modernization of agriculture. China's countryside is small in area and large in population; most farms are small-scaled, with limited ability to accumulate. We must rely on developing township enterprises and use industry to supplement agriculture and build up agriculture as a way to gather capital to develop agriculture. As township enterprises develop, the agricultural labor force will gradually shift to the nonagricultural sector, which will put more land into the hands of farming experts and in turn help farm operations reach the proper scale and create the conditions for intensive farming. Facts everywhere prove that wherever agriculture has been successfully modernized through the peasants' own efforts we will find township enterprises using industry to supplement agriculture, build up agriculture, and develop agriculture. There is no need to worry about the development of township enterprises adversely affecting the development of agriculture. On the contrary, in China, without the development of township enterprises, there will be no modernization of agriculture.

Are the central and western regions ready to accelerate the development of township enterprises? The answer again is positive. First, the masses of peasants in the central and western regions have basically solved their food and clothing problems. More than ever before, they are eager and enthusiastic about developing the economy so that they can get rich as soon as possible, and this is

the most basic drive behind the accelerated development of township enterprises. Second, the central and western regions now have the best environment for all-out reform and opening up. From agricultural reform to industrial and commercial reform, from the opening up of the coastal regions to the opening up of the border provinces, they have all created new conditions for accelerating the development of township enterprises in the central and western regions. Third, the central and western regions make up a huge potential market. The two regions account for two-thirds of the nation's population, and in the wake of economic development and rising income and purchasing power, this market will become even bigger. Fourth, the central and western regions are faced with a new opportunity to develop township enterprises. With more reform and further opening up, the eastern region will accelerate the pace of opening up to the outside world and develop overseas markets. This not only will leave some of the markets to the central and western regions but will gradually shift some resource-processing and labor-intensive industries to the central and western regions and in turn accelerate the development of the regions' township enterprises. Fifth, the central and western regions are rich in agricultural, mineral, land, and labor resources and have great potential for developing township enterprises. Sixth, after more than a decade's hard work, the central and western regions have a strong foundation for developing township enterprises, and many township enterprises which meet market needs and which embody local characteristics are already established. They have accumulated rich experiences for accelerating the development of township enterprises in the regions. Of course, because of their inland location and poor communications system, there are some obstacles to the development of township enterprises in the central and western regions. But as many comrades say, "Worry not about the interior location; worry more about closed minds." So long as we truly liberate our thinkings, take advantage of the superior factors, the central and western regions' township enterprises can flourish.

If we are to make developing township enterprises the focal point of the central and western regions' rural economic work, we must truly put township enterprises on the local party committees' and governments' agenda. Leading comrades must seize this task and select the best cadres to tackle specific tasks and make concrete accomplishments in developing township enterprises the main basis for evaluating the government's and leading cadres' political achievements. This is valuable experience gained in the development of township enterprises in the eastern region and is the key to whether the central and western regions can accelerate the development of their township enterprises. Naturally, the local county-level party committees and governments must continue to do a good job with the county-run industries in terms of fund input and project planning, but they must put their main effort into developing township enterprises, and in the future, in compliance with the state's request, except for important projects and items designated by the state,

when developing secondary and tertiary industries, county towns in the central and western regions should no longer set up state-run enterprises but should concentrate on developing township enterprises instead. The goal is to bring prosperity to the counties by bringing prosperity to the people, and efforts should be put on creating new conditions where township enterprises can flourish.

[Part II, 18 Nov 92 p 1]

[Text] If the central and western regions are to accelerate township enterprises development, it is imperative that we adopt practical measures and encourage all types of talented people to get into the main battlefield township economic development. We must organize an army of talented people in township enterprises who understand technology, understand management, or are good at management.

The key to solving the problem of recruiting talented people lies in having truly liberated thinkings and developing the environment and mechanisms to boldly employ the talented, actively attract the talented, quickly train the talented, and steadfastly protect the talented. Relatively speaking, the central and western regions are short of talented people, but this does not mean there are no talented people. So long as we liberate our thinkings, adopt new ideas, and have a correct set of policies and stick by those policies, a whole stream of talented people will soon emerge.

During reform and opening up, many "able persons" have "emerged from nowhere" in the countryside of the central and western regions. Some are skilled technicians; some are expert managers. First, we must be courageous enough to employ them. Some among them were once attacked during the period of "cutting off capitalism's tail" [during the Cultural Revolution.] It was not their fault, and we should not make excuses to stay away from them or refuse to help them. Even if it had indeed been their fault, and even if they still make mistakes here and there, so long as they are basically good, they should be given a chance to put their talents to work. There is nothing wrong with taking advantage of their special talents to accelerate the development of the rural economy. If we want to free ourselves from the shackles of "leftist" thinkings, we must uphold the principle of "three beneficiaries" and boldly support these talented people in the countryside who can run township enterprises as individuals or in the form of joint households or private businesses or through contracting, leasing, and the shareholding system, and we must develop the legal environment which guarantees that these people can put their talents to work and accomplish something big.

Implementing the policy of "releasing the birds from their cages" to encourage proper circulation of talented people is also an important way to solve the problem of recruiting talented people for township enterprises. In the past, the central and western regions, like other localities, complied with the demands of the planned

economy and over-staffed their party and government organs and created many redundant posts, so that many units now have more hands than work. Today, in combination with the reform and the restructuring of the administrative and management systems, we should encourage the government functionaries to enter the main battlefield of township enterprise development. We should consider the fact that cadres who agree to leave the party and government organs and join the township enterprises may encounter real problems at work and in everyday life, and so while strictly complying with the principle of separating government and enterprises, we should allow the localities to adopt some transitional method to—"let people learn to eat rice before weaning them from milk"—give them time to adjust.

There is also much potential in attracting college and university graduates to work in township enterprises. To do this, we must promulgate a set of practical and down-to-earth policies. Some localities have stipulated that newly-assigned college and university graduates working in township enterprises may retain their cadre status, their administrative ties will remain with the township enterprise management department or personnel exchange center at above-county-level, their probation period is waived, and their wages are determined by enterprises themselves and will not fall below the standards set by the state. These are effective methods and the central and western regions may integrate them into measures that suit local conditions and popularize them. We should also encourage the talented people in the colleges and universities, research units, and state-run industrial and commercial enterprises to work or hold concurrent jobs in township enterprises.

We must learn to discover, attract, and boldly employ talented people of all types. Specialists and technical personnel hired by township enterprises may be paid according to the size of their actual contributions. Township entrepreneurs should be paid their contractual income strictly as agreed in the contracts. Their should be no ceiling or floor—maximum or minimum. Local governments and relevant departments should give commendations and awards to superior technical personnel, managers, and entrepreneurs who have made exceptional contributions in township enterprise production and operation. We must draw a clear line between income earned by people who rely on their own knowledge to provide a service to township enterprises and those who earn money by taking bribes.

We must ban all illegal practices, including coveting or outright seizure of other people's wealth and properties and arbitrary apportionment and extortion and black-mailing. We must strive to create a better environment which lets the talented people put their different skills and wisdom to work even better and cultivate a good social trend of respecting knowledge and the talented.

The central and western regions are rich in resources and their people are hard-working. All these can be put to good use. We hope that talented people with aspirations

and abilities will contribute their wisdom and ability in different ways toward the development of township enterprises and toward the development of the central and western regions' rural economy.

[Part III, 20 Nov 92 p 1]

[Text] Whether it is a nation or a region, the rate and efficiency of its economic development is closely tied to the industrial policy it adopts. A correct industrial policy can effectively give expression to its relative advantages and bring high speed and highly efficient economic development; otherwise it would require twice the effort to achieve half the result. For this reason, if we want to fulfill the strategic task of accelerating the development of township enterprises in the central and western regions, a very important issue is to implement an industrial policy which meets the needs of the economic development of the central and western regions.

The central and western regions are vast in area and rich in resources. They have extensive mountainous areas, undulating hills, water surfaces, and grassland available for development. Thus, for most localities in the central and western regions, the development of township enterprises should focus on "green enterprises" such as forests, pastures, tea plantations, orchards, and herbal medicine farms. "Green enterprises" require little investment and generate quick return; they employ a fairly large labor force and can effectively take advantage of local natural resources, and it is within the ability of most villages to develop them. To develop "green enterprises," our policies should be even more flexible. We should permit collectives, individuals, allied groups to get into the venture together. They can enter into contract or sign leases. The contract or lease terms should be fairly long, even up to a hundred years. They should develop new products and should be free to market their own products; products should not be put under centralized procurement or specialized management. When setting up "green enterprises," we must pay attention to product quality right from the beginning. We need new product varieties and new technologies and go the way of high volume, high quality, and high efficiency. At the same time, we should pay close attention to the changing market demands and focus on both production and circulation. When we set up "green enterprises," we should also set up enterprises that specialize in transportation and sales, storage, refrigeration, grading, packaging and so on. We must link production, processing, and marketing together so that the "green enterprises" can compete successfully in the market.

The central and western regions are rich in mineral resources and hydroelectric power, and they have good possibilities for developing coal mining, mining and excavation, metallurgy, construction materials, power plants and other resource-oriented industries. There is tremendous demand for these products in the market, which gives the central and western regions a huge advantage. When we accelerate the development of township enterprises in the central and western regions, we should pay special attention to developing these

resource-type industries. The relevant departments in charge should make it easier for the local people to develop and make use of these resource and provide them with the necessary services and help accelerate their development through centralized plans and guidelines. Some departments and units have put all mineral resources under their own development plans, leaving no room for the peasants to develop township enterprises. These departments are not able to develop those resources but still refuse to let the peasants take over the development. Some make the peasants pay additional charges or raise various fees above the state-set level when the peasants try to develop the mineral resources, making it impossible for the peasant to make a profit. Some even "take over" the small mines and hydroelectric power plants and other township enterprises set up by peasant groups or individuals in the name of "strengthening industrial management" and turn them into department-owned enterprises, thus changing the nature of ownership of these township enterprises either overtly or in an underhanded way. These erroneous practices are detrimental to the development of township enterprises and must be firmly rectified and prohibited.

As in the rest of the national economy, the tertiary industry accounts for only a small percentage of the output of China's township enterprises. Accelerating the development of the tertiary industry and proportionally enlarging the tertiary industry are important tasks in the development of township enterprises. Developing the tertiary industry not only will make life easier and richer for the people and bring prosperity to the cities and countryside but will also provide more jobs and increase the peasants' income.

It is an industry that deserves a lot of attention. The central and western regions must take advantage of its huge labor force to vigorously develop commerce, the service industry, tourism, and other trades in the tertiary industry and give tertiary industry a reasonable share of the township enterprises right from the beginning.

A correct industrial policy must take into full consideration the natural resources, the economic conditions, and market demands and other factors. Only in this way can we turn local superior resources into superior products and turn the superior products into a commercial advantage. Overall, the central and western regions' development of township enterprises should emphasize the rearing and cultivation industries, mining and excavation industries, and the service industry. But because each county, each town, and each village has different natural, economic, and technological conditions, each must decide for itself what industry it should develop based on what is practical and realistic. In this respect, any indiscriminate, sweeping method will be harmful and should not be allowed.

As a component of the national economy, township enterprises in the central and western regions must accept the guidance of the state's macroeconomic industrial policy. Because the central and western regions'

township enterprises had a late start, and because accelerating their development is an important measure in invigorating the regions' economy, relevant comprehensive departments and industrial management departments of the state must start out from those regions' actual conditions and the regions' own economic development needs, suit measures to local conditions, and implement the state's industrial policy with flexibility to create an industrial environment that facilitates the development of local resources and allow the regions to be different from the eastern region. With respect to the development of township enterprises in the central and western regions, the overall scheme is to plant a foothold on the superior local resources, meet the market demands at home and abroad, accelerate the rate of reform and opening up, and quicken the pace of economic development. With respect to product and industry selection, we will develop what we can; we need not limit ourselves; so long as the products are of good quality, are hot-selling, do not pollute the environment, and do not harm the ecosystem, we need not restrict the size of the projects either, and so long as efficiency is guaranteed, we can develop as fast as we want to; we need not limit ourselves. Of course, we cannot ignore real conditions and set rigid quotas at each level, assign duties, or issue irresponsible orders.

#### **Township Enterprises in Central Regions**

93CE0189A Beijing ZHONGGUO XIANGZHEN QIYE  
BAO in Chinese 9 Nov 92 p 4

[Article: "Township and Town Enterprises Hold Potential; Township and Town Enterprises Hold Hope. New Situation This Year in the Development of Township and Town Enterprises in the 10 Central Provinces of Jilin, Anhui, Shaanxi, Shanxi, Sichuan, Hunan, Jiangxi, Heilongjiang, Hubei, and Henan"]

[Text] Jilin: Building of a Solid Economic Pattern. Township and Town Gross Industrial Output Value for January Through August 23.3 Percent Higher Than for Same Period in 1991.

Very great achievements have been scored in the development of Jilin Province's township and town enterprises. As of the end of 1991, the gross output value of township and town enterprises in the province was 16.22 billion yuan. This was 49 percent of rural gross output value, and 17.4 percent of the province's gross output value. The original value of their assets was 4.9 billion yuan, and they employed 1.59 million people—one-fourth the province's rural work force. Gross output value of the province's township and town enterprises for the period January through August 1992 was 4,059,990,000 yuan, up 23.3 percent from the same period in 1991.

The province's township and town enterprises have shaped a solid economic pattern that is unique.

A series of resources-type industries devoted primarily to the processing of agricultural by-products has gradually taken shape. Backbone industries in the processing

of foodstuffs, beverages, minerals, and timber that produce grain, ginseng, edible oil, tubers, poultry, dairy products, lumber, fruit, and stone have now taken shape. Enterprise groups for the production of beer, starch, and milk powder have been formed, their products already holding a leading position in their respective industries throughout the province.

The percentage of integrated processing enterprises on which large- and medium-sized state-owned automotive and chemical industries rely is steadily increasing, their output value accounting for 30 percent of rural industrial output value. Chemical industry, machinery, and casting enterprise groups having a considerable level of development and strength have been founded.

Basic industries in the construction and building materials fields have consolidated and improved in the course of their development. Output value from construction and building materials industries accounts for more than one-fourth of the gross output value of the province's township and town enterprises.

Local economies have steadily developed and become stronger through the exploitation of economic advantages and natural resources. In the eastern mountain region of the province, the processing of forest products, minerals, and mountain delicacies is paramount. In the central grain producing regions, processing of agricultural by-products is paramount; in the western pastoral regions, the processing of agricultural and livestock products, local specialty products, and oil-bearing crops is paramount; and in suburban areas, and in industrial and mining areas, township and town enterprise production of regional specialties that support large industries is particularly marked.

Several new measures and new policies for the development of township and town enterprises in Jilin Province:

1. Thirty percent or more of the agricultural loan fund must be used for the development of township and town enterprises, and the percentage must be increased year by year. Fiscal organs at all levels must also set aside more working capital for the support of agriculture as well. Except for certain trades, all new township and town enterprises are to be accorded a reduction or exemption from the product tax and preferential income tax for from three to five years. Enterprises whose production is not normal and whose accounting is incomplete may pay a fixed amount of tax at fixed times. Established enterprises that have a certain amount of returns may contract the amount of income taxes to be paid.

2. By the end of the Eighth Five-Year Plan, approximately 100 small township and town industrial zones are to be built, flexible policies used to attract capable people from everywhere to do business and operate enterprises in these zones, and multiple channels used to attract investment of capital for the construction and development of the zones. Investors' problems with household registration, change of their dependents' status from

agricultural to nonagricultural, and their children's school attendance can be solved.

3. Circumstances permitting, the existence and development of collective old-style Chinese bank and nongovernment financial institutions may be permitted. Subject to township or above government approval, peasants may be permitted to establish share cooperative foundations. Finance organs acting as agents for enterprises having requisite conditions, enterprises themselves, or enterprise partnerships made up of several households may be permitted to issue bonds. Provinces, cities, and counties may also issue township and town enterprise development bonds on behalf of the their treasuries or subordinate investment corporations to soak up idle capital in society.

4. Encouragement to scientific and technical personnel to go to township and town enterprises as "Saturday engineers" to perform scientific and technical consulting work or to help tackle scientific and technical problems, and allowing staff members and workers to hold second jobs in township and town enterprises. Cadres who leave or retire from party or government organs are no longer to be restrained from going to work in township and town enterprises until two years following retirement.

The wages and welfare benefits of all categories of personnel working in township and town enterprises, including personnel in tertiary industry township and town enterprises, are to be decided by the township and town enterprises themselves. Outstanding personnel who bring capital, technology or projects to an enterprise, develop new products, or make a conspicuous contribution to enterprise management are to be given a generous reward. Subject to approval by a government above the county level, no bonus tax or wage adjustment tax needs be paid on a single award.

**Anhui: Great Strides Through Close Attention to Both Policy and Implementation Sixty-three Percent More Growth Over Same Period in 1991 of Township and Town Enterprises Between January and September 1992.**

Enormously encouraged by the spirit of Comrade Deng Xiaoping's remarks during his travels in south China, Anhui's township and town enterprises took full advantage of a difficult to obtain opportunity for development. Acting as one, they have devoted close attention to both policy and implementation, have moved ahead with great strides, and have done all possible to advance township and town enterprises upward another step. Between January and September, the province produced a gross output value of 42 billion yuan, including 25 billion yuan in industrial output value in a respective 63 and 66 percent increase over the same period in 1991. Such a speed of growth has been unprecedented in the past several years.

During 1992, Anhui Province's leaders said that they would make people who were indifferent about and did not develop township and town enterprises unable to enjoy their food or sleep well. In the policy realm, the



provincial CPC committee and government issued *Various Problems in the Intensification of Reform, Expansion of the Opening to the Outside World, and Quickening Development of the Economy, and Decisions on Various Problems in Accelerating Development of Township and Town Enterprises*. Provisions of these policies provided direct impetus for the development of township and town enterprises. Numerous government agency cadres, scientists, and retired technicians surged into rural villages in different capacities to take leading positions in or to found township and town enterprises. Party and government leaders in every jurisdiction also took personal charge of arrangements for specific tracts, townships, and enterprises. Departments in charge of township and town enterprises also provided more manpower and financial resources.

The provincial government organized implementation of key project 1235, i.e., it assembled forces to take charge in 10 counties, 20 townships (and towns), and 30 administrative villages in which 50 enterprises organized a provincewide township and town enterprise "Class A Corps." The party and government encouraged them to go all out, to develop above normal, the model and radiating role of a number of leaders stimulating broad areas for an all-points advance.

**Shaanxi: Focus on Contribution to Development.** *Township and Town Enterprise Gross Output Value in 1992 up 22.68 Percent Over the Same Period in 1991*

The Shaanxi Provincial CPC Committee and government proceeded from realities to intensify reform, expand the opening to the outside world, and to make a contribution in spurring the development of township and town enterprises. As a result, a new pattern of major development of the province's township and town enterprises appeared in 1992. As of the end of August, gross output value stood at 15.32 billion yuan for 69.17 percent fulfillment of plan. This was 22.68 percent more than during the same period in 1991. A fine momentum towards steady, healthy development continues.

Shaanxi Province has proposed a battle objective of a township and town enterprise gross output value of 104.4 billion yuan by the end of the present century. In this connection, the provincial CPC committee and government have adopted five measures as follows: (1) A clear guiding thought for handling the correlation between improvement and development that makes development paramount. Adherence to a "many drive" policy regarding ownership by which any enterprise that can make the grade gets a boost, anything that can be developed is developed, and whatever produces more and faster is actively adopted no matter the form of ownership.

(2) A suitable operating mechanism. While perfecting the contract operating responsibility system, active efforts are to be made to promote a cooperative share system. (3) Correct selection of areas in which breakthroughs can be made when seizing opportunities. Efforts to analyze frictions and problems in developing

the province's rural economy, using investigation and study, and the summarization and spread of experiences in the development of township and town enterprises in 10 counties and villages such as Dali to promote full development of township and town enterprises. (4) Active development of lateral ties, using Shaanxi Province's opportunities for exchanges with cadres in Jiangsu and Shandong provinces, emphasizing going to them, forming ties, seeking projects, and developing cooperative partnership enterprises. (5) Breaking new ground in the development of three kinds of partially or wholly foreign-owned enterprises.

An external climate is largely in being for the development of township and town enterprises in Shaanxi, and a reliable foundation has been laid for moving up a step and realizing the two battle objectives during the Eighth Five-Year Plan.

**Shanxi: New Chapter Written on Energy and Heavy Chemical Industrial Bases.** *Gross Output Value of Township and Town Enterprises Between January and August 1991 Up 32.3 Percent Over Same Period in 1991.*

Encouraged and guided by the spirit of Comrade Deng Xiaoping's remarks during his travels in south China, Shanxi mobilized the entire province from top to bottom and in every quarter during 1992, thereby advancing the development of township and town enterprises to a new stage.

Between January and August, the province's township and town enterprises produced a gross output value of 23.7 billion yuan, up 32.3 percent over the same period in 1991. This included 6.89 billion yuan of industrial output value, up 25.8 percent. Gross income was 18.09 billion yuan, up 34.5 percent. This was 15.6, 11.1 and 13.4 percentage points higher than the average for the Seventh Five-Year Plan. For the first time in six years, growth of both gross output value and gross income exceeded 30 percent. The province's township and town enterprises realized a net profit of 1.35 billion yuan, and paid 505 million yuan in taxes to the state. This was 17.2 and 16.8 percent more than for the same period in 1991.

As of the end of August, the province's township and town enterprises built 11,910 projects, and technologically transformed 1,805 projects at a total investment of 960 million yuan, up 24.6 percent from the same period in 1991. These enterprises included an increased number of high base line, large scale high technology content, high added value, high market capacity, high foreign exchange-earning, and high return basic enterprises and tertiary industries. The number of cooperative share enterprises, individually owned enterprises and three kinds of partially or wholly foreign-owned enterprises among the new enterprises was also greater.

Shanxi Province adopted several concrete policies to accelerate the development of township and town enterprises as follows:

It established a township and town enterprise development fund. Depending on the year-by-year improvement

in financial situation, the support funds that the provincial government provides each year, together with the support funds issued since 1985 and the portions retrieved are to serve as a circulating fund for the development of township and town enterprises. All prefectures and cities are also to disburse funds as their financial resources permit, counties withholding 20 percent of increased tax receipts from township and town enterprises each year for use as a prefecture, city, and county development fund.

In order to promote scientific and technical progress, the technological transformation of township and town enterprises is to be included in annual plans, 5 percent of funds that the province and prefectures (or cities) allocate each year for technological transformation to be used for the technological transformation of key township and town industrial enterprises. Approximately one-half of spark plan funds are to be obligated each year for the development of township and town enterprises. In order to advance the development of new products, and to upgrade and update new products, the province obligates 500,000 yuan each year as expenses for township and town enterprise trial production of new product enterprises withhold 2 percent of sales income as a technology development fund to be paid before taxes, specific sums allotted for specific purposes. New profits from technological transformation are to be exempted from income taxes for three years.

The fixed assets depreciation rate for township and town enterprises having an output value of 3 million yuan or profits of 500,000 yuan in any given year has been increased to 12 percent. For large taxpaying collective enterprises, a policy of encouragement has been put into practice whereby the county (city, or district) in which they are located returns to them a percentage of tax increases, the portion returned to be used for technological transformation. Township and town collective enterprises making a profit of less than 20,000 yuan per year are exempted from the income tax.

**Sichuan: Fine Situation Unparalleled in Many Years.** *Township and Town Enterprises Show Gross Output Value for January Through August That Is 45.6 Percent Greater Than for the Same Period in 1991.*

Development of Sichuan Province's township and town enterprises picked up considerably during 1992. Gross output value for the period January through August stood at 59.22 billion yuan, up 45.6 percent from the same period in 1991. This included a township and town industrial output value of 34.2 billion yuan, up 40.68 percent. Gross income came to 51.99 billion yuan, up 46.55 percent; profits amounted to 2.08 billion yuan, up 39.2 percent, and tax payments amounted to 1.535 billion yuan, up 5.6 percent. Forecasts call for the gross output value of township and town enterprises to break the 9 billion yuan mark for the year. This is a fine situation unparalleled in many years.

During 1992, the Sichuan Provincial CPC committee and provincial government adopted a series of measures

to improve leadership of township and town enterprises, principal of which were as follows:

1) Provincial CPC Committee secretary, Yang Rudai [2799 3067 1486] personally took charge of township and town enterprises. At his instigation the Sichuan Provincial Committee and provincial government drafted a circular notice titled, "Seize Opportunities To Accelerate Development To Make the Province's Township and Town Enterprises Move a Step Upward," which proposed seven policy measures for organizing and mobilizing all agencies concerned to wage a total war for the development of township and town enterprises. 2) The provincial government increased supervision and inspections in support of compliance with township and town enterprise policies. By way of removing stumbling blocks in intermediary echelons in order to ensure policy implementation, during June and July 1992 the provincial government sent personnel from 28 agencies of the provincial government office in three inspection teams to key prefectures, cities, and counties to check on all jurisdiction's compliance with *Decisions on Further Major Efforts To Develop Township and Town Enterprises*, which the provincial CPC committee and provincial government issued in 1991. 3) The provincial people's congress standing committee, and the provincial CPPCC each organized permanent members and committee members to examine township and town enterprises in order to gain a better understanding of them and provide support for them. They helped very greatly in banishing worries and solving difficulties of staff members and workers in township and town enterprises throughout the province.

**Hunan: Sets Off Another Upsurge Between January and August 1992, Township and Town Enterprises produced a Gross Output Value 36.51 Percent Greater Than During the Same Period in 1991.**

With the advent of the 1990's, another vast upsurge has occurred throughout Hunan Province in the development of township and town enterprises.

On the very first day of work following the lunar New Year in 1991, the provincial CPC committee convened its standing committee for special study of township and town enterprises. At the meeting of commissioners, zhou magistrates, mayors, and county magistrates that the provincial CPC committee and provincial government convened in March, one of the main topics discussed was township and town enterprises, a call to action was made and plans laid. In June, the provincial CPC committee and provincial government convened another special provincewide work committee on township and town enterprises. In June, the provincial CPC committee and provincial government also issued *Decisions on Further Acceleration of Township and Town Enterprise Development*. In October, the provincial government convened the provincial township and town entrepreneur commendation meeting. In 1991, the provincial CPC committee and provincial government adopted a series of measures that effectively heightened the consciousness of cadres and the public throughout the province about



the importance and urgency of developing township and town enterprises. It also improved the climate for the development of township and town enterprises. As a result, 1991 was the best year since the three years of improving the economic environment and rectifying the economic order for Hunan in terms of speed of development and economic returns from township and town enterprises.

During 1992, and particularly following implementation of the spirit of Comrade Xiaoping's remarks during his travels in south China, both the provincial CPC committee and provincial government placed greater stress on township and town enterprise work. In March 1992, the provincial government convened the 1991 province-wide township and town enterprise work summation and commendation meeting. In May, the provincial CPC committee and provincial government convened a workshop of people in charge in 13 cities and counties in which township and town enterprises had developed more rapidly than elsewhere for a discussion and study of policies and measures for accelerating the pace of development in these key areas. In September, the provincial CPC committee and provincial government convened another workshop, this time on the development of township and town enterprises in western and southern prefectures of Hunan. It studied ways and means of accelerating the pace of development of township and town enterprises in these lagging areas.

Development of Hunan's township and town enterprises has been even more heartening in 1992. Between January and August, the province produced a gross output value of 29.219 billion yuan, which was 36.51 percent more than for the same period in 1991; and a township and town gross industrial output value of 16.928 billion yuan, which was 35.78 percent more than during the same period in 1991. The province's township and town enterprises earned profits totaling 1.008 billion yuan during the first half of the year, up 38.6 percent from the same period in the previous year. They paid 560 million yuan in taxes, up 23.4 percent over the same period in 1991. Several concrete measures and policies for accelerating the development of Hunan's township and town enterprises were as follows:

1. The provincial CPC committee and provincial government set up a work leadership team that was specifically responsible for organizing and directing total war for the development of township and town enterprises throughout the province.
2. Prefectures, zhous, municipalities, and counties set up township and town enterprise economic committees under direct leadership of prefecture, zhou, municipal, and county governments.
3. The provincial government decided to obligate 10 million yuan annually for use as a circulating fund beginning in 1991. This money was to be used to stimulate credit cooperative loans for the development of township and town enterprises. Treasuries at all levels in prefectures, cities and counties are to set aside a

certain amount of money from their budgets each year to be used in conjunction with withholdings from increased tax collections from township and town enterprises for the development of township and town enterprises and as circulation funds to be used for payment.

**Jiangxi: Institutes Strategy of Great Development and Great Improvement Township and Town Enterprises Gross Output Value From January Through August 52.2 Percent Greater Than During Same Period in 1991.**

Jiangxi Province's township and town enterprises adhered to a policy of great development and great improvement to surmount hardships resulting from several natural disasters, scoring heartening accomplishments for the period January through August. All economic indicators exceeded the all-time highs for the same period.

As of the end of August, the province's township and town enterprises produced 18.837 billion yuan of gross output value, including 12.608 billion yuan of industrial output value, up 52.2 and 52.4 percent respectively over the same period in 1991 for a respective 80.5 and 82.4 percent fulfillment of plan. Township and town enterprises accounted for 33.7 percent of the province's gross industrial output value. Township and town industries net added output value accounted for 56.7 percent of the province's newly added output value. Output of 42 different products was markedly greater than what externally oriented township and town enterprises did. Between January and July, the province began operation of 51 new three kinds of partially or wholly foreign-owned enterprises, and imported \$33.55 million of foreign capital township and town enterprise commodity exports came to 240 million yuan, up 78 percent from the same period in 1991. Township and town enterprise technological transformation moved along swiftly, work having begun on 2,777 projects as of the end of August for a total investment of 1.76 billion yuan 920 million yuan of which has already been supplied.

The main reason for these achievements of Jiangxi Province's township and town enterprises may be summarized largely as follows: 1) Great development and great improvement of township and town enterprises was regarded and conducted as an economic development strategy from top to bottom in the province. 2) Leadership personnel handled investment problems. Despite the extremely difficult funds situation in 1992, more than 600 million yuan has already been provided. This is the total of all investment in 1991, and lays a material basis for great development of the province's township and town enterprises. 3) Serious attention was given both scientific and technical work and obtaining foreign capital. During the first half of the year, Jiangxi's township and town enterprises held their second technology exchange meeting. This meeting resulted in the importation of more than 2,000 pieces of advanced technology, the development of 108 products, and organization of correspondence training for 17,000 supply and marketing personnel, as well as management training for more than 5,000 cadres, staff members and

workers. All prefectures and cities are increasingly active in initiating three kinds of partially or wholly foreign-owned enterprises

**Heilongjiang: Effective Planning and Ground-breaking Policies Produce Surpassing Development.** *Gross Output of Township and Village Collective Industries for the Period January Through August 33.7 Percent Greater Than for Same Period in 1991.*

The Heilongjiang CPC committee and provincial government regards accelerated development of township and town enterprises as a key area in economic work throughout the province. Gross output value of township and village collective industries from January through August increased 33.7 percent over the same period in recent years to set an all-time high.

Since 1991, Heilongjiang took the following main actions:

First, the provincial CPC committee and provincial government called for the last three years of the Eight Five-Year Plan to be a new stage for high speed development of township and town enterprises

Second, plans call for the building throughout the province of 100 township and town enterprise development zones and small industrial zones, and ground breaking for 50 specialized wholesale or complete trading markets, major efforts to open up international markets, and the use of border trade as a means for developing an externally oriented economy. Township-operated, village-operated, cooperative shareholding, and individually owned privately operated enterprises will be continued in the coordinated development of secondary and tertiary industries.

Third, the provincial government requires that township and town enterprises of all kinds and at all levels begin to set up project banks before the end of 1992, and that management units in all trades help provide technology and projects to township and town enterprises. Large- and medium-sized enterprises in city scientific research units and institutions of higher learning are to diffuse a number of technologies and products to township and town enterprises in a planned way. The organization department of the provincial CPC committee, and the provincial personnel department separately presented policies for the release of personnel of all kinds to the main battle ground of township and town enterprises.

Fourth was strict attention to policy implementation, ensuring that policies were applied. The provincial government intensified supervision, inspection, and implementation of policies, breaking a substantial amount of ground in this regard.

Fifth, the province, cities, and counties established township and town enterprise leadership teams commanded by their main leaders. The provincial government also decided to issue awards each year, beginning in 1992, to personnel performing meritorious services in the development of township and town enterprises.

**Hubei: Development Speed Increasing.** *Township and Town Industrial Output Value for January Through August Up 23.7 Percent Over Same Period in 1991*

The strong wind of reform and opening to the outside world is driving the steady and healthy development of Hubei's township and town enterprises. During the Seventh Five-Year Plan, the gross output value of Hubei's township and town enterprises increased at an annual 22.81 percent. By 1991, Hubei had 1,043,300 township and town enterprises employing 38.787 billion [sic] people producing a gross output value of 20.629 billion yuan

Township and town enterprises have become an important integral part of Hubei's economy and a dynamic force in economic growth. During the Seventh Five-Year Plan, the gross output value of township and town enterprises accounted for 40.65 percent of the net increase in the province's gross industrial output value. Currently, township and town enterprise gross output value amounts to 53.76 percent of the province's rural social gross output value. Township and town industrial output value accounts for 21.6 percent of the province's industrial output value, and township and town enterprise staff members and workers accounted for 21.44 percent of the township and village workforce.

Inasmuch as China's reform and opening to the outside world is moving inland from the seacoast and peripheral areas, its focus extending to the region along the Chang Jiang, the Hubei provincial CPC committee and provincial government called for an increased sense of urgency and sense of crisis about a speed-up in the development of township and town enterprises, and adopted some effective measures to do this. They decided that beginning in 1991, township and town enterprises are to be tax exempt for from one to three years and be granted tax reduction for from one to three years from the date of their approval. The provincial government also decided that "beginning in 1992, the Bank of Agriculture is to increase credit to township and town enterprises by 1 billion yuan, and to re-lend 1 billion yuan of money recovered." For five years consecutively, it is to increase by 30 million yuan each year the amount of government-provided circulating funds, mostly for use in developing the village collective economy.

**Henan: Confidence About Breaking the 100 Billion Mark.** *Township and Town Enterprises Produce Gross Output Value From January Through August That Is 44.7 Percent Greater Than During the Same Period in 1991.*

During 1992, Henan Province transformed the township and town enterprise mechanism by changing to a cooperative share system. Between January and August, the province's township and town enterprises produced 77.61 billion yuan of gross output value in a 44.7 percent increase over the same period in 1991. Breaking the 100 billion mark for the whole year is a virtual certainty.

Development of Henan Province's township and town enterprises during 1992 may be characterized in three ways as follows: One is high speed of development, gross

output value rising 20.9 percentage points over the same period in 1991, and industrial output rising 23.6 percentage points. For 14 enterprises in 17 of the province's prefectures and cities, the speed of increase was above 40 percent. Second, the speed of development of township and village collective industrial enterprises was markedly higher than that of individual household-run enterprises. Between January and August, the speed of development of village collective industrial enterprises was 11.3 percentage points higher than that of individual household-operated enterprises or enterprises operated by household partnerships. Third, speed of development and returns increased at about the same pace, the rates of increase in gross output value and in taxes and profits being 44.7 and 37.6 percent.

The Henan provincial CPC committee and the provincial government explicitly affirmed township and town enterprises to be a success, and not to be developing too fast. It proposed a policy of vigorous development, investment in technological transformation and new projects continuing to invest in technical transformation and new projects. More than 6 billion yuan is to be collected each year through various channels for investment in township and town enterprises. This will produce good momentum, whereby investment in township and town enterprises throughout the province increases by nearly 20 billion yuan per year.

In the wake of Comrade Xiaoping's remarks during his travels in south China, Henan further made clear that development is a solid principle, and that the need for inputs to get outputs is also a solid principle. While employing the cooperative share system as a means to transform the township and town enterprise mechanism, efforts are to be made to increase the amount of capital investment. Surveys conducted in some advanced counties and cities show that the 100 million yuan invested in technological transformation and new projects during just the first half of the year was twice the total investment during the past two years.

#### **Township, Town Enterprises in Western Region**

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[Article: "Township and Town Enterprises Hold Potential; Township and Town Enterprises Hold Hope. New Situation This Year in the Development of Township and Town Enterprises in the 10 Western Provinces, Regions of Guangxi, Inner Mongolia, Gansu, Xinjiang, Yunnan, Guizhou, Qinghai, Ningxia, and Tibet"]

[Text] Guangxi: Township and Town Enterprises Continue To Spread Their Wings and Take Off; Between January and August, Gross Income Increases 85.53 and Gross Output Increases 94.42 Percent Over Same Period in 1991."

Building on their leading position in the country in growth of leading economic indicators during 1991, Guangxi's township and town enterprises continued to spread their wings for flight during January and August 1992. Highlights are as follows: First was a rise of all

leading economic indicators as well as a substantial degree of growth. Gross income was 13.816 billion yuan; gross output was 12.950 billion yuan, and gross industrial output value (at constant prices) was 6.541 billion yuan in a respective 85.53, 94.42, and 74.95 percent increase over the same period in 1991. Gross output value was 12.143 billion yuan more than in 1991, up 6.65 percent. Second was an increase in "four wheel drive," [township-run, village-run, partnership-run, and individual household-run enterprises] township and village collective enterprises growing fastest. Comparison of gross income with the same period in 1991 shows a 64.22 percent increase for township-operated enterprises, an 85.65 percent increase for village-operated enterprises, a 71.04 percent increase for cooperative enterprises, and a 96.14 percent increase for individual enterprises. Third was the coming to the fore of a number of prefectures, cities, and counties that developed by leaps and bounds. In eight of Guangxi's 13 prefectures, gross income increased by more than 50 percent; and in 47 of its 88 counties (or cities), gross income increased by more than 50 percent. Fourth was the rapid development of externally oriented enterprises. In Yulin Prefecture alone, 70 new three kinds of partially or wholly foreign-owned enterprises appeared in 1992, bring more than \$30 million in foreign capital into the region.

During 1992, Guangxi adopted the following policies and took the following actions:

1. Improvement of the external environment. Deng Xiaoping's important remarks during his visit to south China in the spring of 1992 energized Guangxi from top to bottom. The autonomous region CPC committee and people's government seized the favorable opportunity, promptly proposing completion within three years of the Eighth Five-Year Plan for township and town enterprises as a battle goal, thereby creating an unprecedented external environment for the more rapid development of township and town enterprises.

2. Increased investment. The region's CPC committee and government decided that the autonomous region treasury should disburse another 20 million yuan on top of the 5 million yuan already being disbursed each year as working capital for township and town enterprises during the Eighth Five-Year Plan. In addition, money is to be raised through central government channels. During 1991, township and town enterprises throughout the region added new fixed assets having an original value of 849 million yuan; and during the first half of 1992, it invested another 723 million yuan in new fixed assets.

3. Greater Leadership Support. Development of township and town enterprises was placed under the "double civilization" responsibility system at each level. Not only is the top leader in the CPC committee or government at the region, prefecture, city, county, and township (or town) levels personally in charge of township and town enterprises, but a deputy county magistrate

(city mayor), or deputy township (or town) leader has also been assigned responsibility for township and town enterprises.

**Inner Mongolia: Rise of Township and Town Enterprises In the Great Tide of Reform.** *January - August Gross Output Value Up 38.3 Percent Over Same Period in 1991.*

Inner Mongolia's township and town enterprises, which number 316,000 and employ 1.025 million people, are rising in the great tide of reform. In 1991, they produced an output value of 7.03 billion yuan and taxes of 1.1 billion yuan, delivering the contribution they should make to Inner Mongolia's economic development and improvement of the livelihood of its peasants and herdsmen. The development trend has been even better during 1992. Output value for the period January through August was 5.17 billion yuan, up 38.3 percent over the same period in 1991, and income stood at 5.84 billion yuan, up 34.8 percent.

The Inner Mongolian Autonomous Region CPC Committee and government have proposed a speed of growth of no less than 30 percent for township and town enterprises during the Eighth Five-Year Plan and the next decade, output value by the end of the Eighth Five-Year Plan reaching between 18 and 20 billion yuan in a rise from 32.2 percent to 70 percent of the gross output value of rural society. The actions it has taken to realize this goal are as follows:

Great strides in reform. Acting in response to the master strategy of "two zones, one region," reform and opening to the outside world, and the new circumstances, the autonomous region CPC committee and government proposed a "three no limits" policy for township and town enterprises of "greater opening to the outside world, greater internal vitality, and more delegation of authority." In addition, it stressed adaptability and flexibility in carrying out policies and measures in this backward region that is Inner Mongolia.

More investment. Plans call for a 7 billion yuan investment during the Eighth Five-Year Plan, or an average of 1.4 billion yuan each year. During the Ninth Five-Year Plan, an investment of 10 billion yuan, i.e., 2 billion yuan per year, is called for.

Faster pace of development and transformation. During the Eighth Five-Year Plan, 1,000 new projects are to open each year, 1,500 township and village collective enterprises are to be formed, and 1,000 collective industrial enterprises are to be expanded and technologically transformed at a total investment of 4 billion yuan for an increase in output value of between 8 and 10 billion yuan.

Higher caliber personnel. By the end of the Eighth Five-Year Plan, 12 leagues and cities and one-third of the banners and counties are to set up training centers in the formation of a fairly complete training system.

Better services. While devoting more effort to their own construction, departments in charge of township and town enterprises at all levels are to devote their main

energies to coordination and services in order to remove worries and solve difficulties for the grassroots level and enterprises.

**Gansu: Large Scale, High Speed Leap-Style Development.** *Township and Town Enterprise Gross Output Value From January Through September Increased 30.93 Percent Over the Same Period in 1991.*

Gansu Province's township and town enterprises began to enter a period of fairly rapid development after 1985, growing at an average 30.55 percent rate during the past five years. As of 1991, the gross output value of township and town enterprises throughout the province accounted for 45.59 percent of total rural social gross output value. During the past year, Gansu Province's township and town enterprises developed even faster, producing a gross output value of 7.085 billion yuan between January and September, up 30.93 percent from the same period in 1991. It is estimated that gross output value will break 10 billion yuan, and possibly reach 11 billion yuan by the end of the year.

The Gansu Province CPC Committee and provincial government have called for maintenance of a 30 percent or better speed of development of township and town enterprises throughout the province. Their gross output value is to reach 24 billion yuan by 1995 and 89 billion yuan by 2000. In order to realize the foregoing goals and tasks, they have decided to follow a road of large scale, high speed, leap-style development, seizing opportunities, going all out, moving ahead rapidly, and drawing up master plans for breaking new ground in key areas and for spurring all-around development. Breaking new ground in key areas entails focusing on key areas, focusing on counties and townships having an output value of more than 100 million yuan, and using the advantages that Gansu Province enjoys in having fairly plentiful scientific and technical strength. It entails more rapid transfer of scientific and technical achievements into the economy, emphasis on the integration of science, industry, and trade for key industries and for the development of a series of products. They proposed that henceforth new enterprises at the county level and below, including enterprises for the development of resources, enterprise-local government partnerships, development to help the needy, projects to reduce fiscal subsidies, and agricultural products serial development projects should, in principle, be operated as township and town enterprises. The number of counties making 100 million yuan are to increase from 38 in 1992 to 65 in 1995, their gross output value accounting for 94 percent of the gross output value of all township and town enterprises in the province.

**Xinjiang: Efforts To Score Major Successes as Rapidly as Possible.** *Township and Town Gross Industrial Output Value From January Through August Up 20.23 Percent Over the Same Period in 1991.*

Thanks to daunting efforts, township and town enterprises in the Xinjiang Autonomous Region now number more than 7,000 and employ 460,000 people. The gross

output value of township and town enterprises accounts for 15 percent of rural social gross output value, and 7.26 percent of the region's gross industrial output value. During 1991, the region's township and town enterprises had gross receipts of 3.1 billion yuan. Since the beginning of 1992, the speed of development of township and town enterprises has picked up greatly. Between January and August, the gross output value of township and town industries throughout the region reached 11.8 yuan [sic], up 20.23 percent over the same period in 1991.

Xinjiang holds vast prospects and has very good conditions for the development of township and town enterprises. Encouraged by Comrade Deng Xiaoping's remarks during his travels in south China, the Xinjiang Autonomous Region CPC Committee and government this year proposed a guiding thought for using decontrol to advance the development of township and town enterprises. It created a fine climate in every way for the development of township and town enterprises that provided impetus for large scale operation of township and town enterprises throughout the region. The autonomous region government decided that henceforth township and town enterprises will make full use of the advantages that the region provides. They will concentrate efforts on the processing of agricultural by-products, the exploitation of resources, internal and external trade, and economic cooperation, appropriately developing everything that can be developed. So long as the funds are available, township and town enterprise projects that are consistent with state industrial policy, whose products have a market, and from which economic returns are good will be approved by counties (and cities) without limitations on the amount of investment. So long as the funds are available, enterprises may themselves decide current technological transformation projects. Henceforth, all processing of agricultural by-products such as grain, cotton, and oil-bearing crops that township and town enterprises can do, as well as the operation of other processing industries, primary level townships and villages are to be permitted to do.

Peasants and herdsmen are to be given support in operating markets with border peoples, and support is to be given township and town enterprises to engage in border trade and to organize the export of labor services, a green light thus being given to townships and towns that are able to operate enterprises outside the country.

In 1991, all committees, offices, departments, bureaus and units began contracting with counties, providing appropriate support for each county to develop township and town enterprises that is guaranteed for three years without change.

**Yunnan: Effort To Grow More Than 30 Percent Each Year.** *Township and town enterprise gross income from January through August 1992 was 29.5 percent higher than for the same period in 1991; and gross output value increased 24.5 percent.*

Yunnan's township and town enterprises developed fairly rapidly in 1992. As of the end of August, the gross

income of township and town enterprises throughout the province stood at 6.95 billion yuan, up 29.5 percent from the same period in 1991. Gross output value was 6.238 billion yuan, up 24.5 percent over the same period in 1991. During the first half of the year, the province's township and town enterprises paid 139 million yuan in taxes to the state. This was 26.3 percent more than for the same period in 1991. Profits amounted to 155 million yuan, 59.7 percent more than for the same period in 1991.

Responding to the extremely inadequate development of township and town enterprises in the province, in 1992 the Yunnan Provincial CPC Committee and provincial government unequivocally proposed making township and town enterprises one of the "three weak links" on which progress must be made in developing the province's economy. They called for a more than 30 percent growth per year for the next five years. In order to realize this growth objective, the provincial CPC committee and provincial government called upon all departments concerned to provide manpower support and coordination.

The provincial treasury provided 20 million yuan in discounted loans. During the first half of the year, it set aside 7.5 million yuan for 13 new construction and technological transformation projects in nine prefectures and zhous. the provincial Bank of Agriculture and agricultural bank credit cooperatives provided 74.94 million yuan for township and town enterprise investment in fixed assets, up 37.3 percent from the first half of 1991. They also issued 660 million yuan working capital, 36.5 percent more than during the first half of 1991. The provincial planning commission and economic commission widened township and town enterprises' examination and approval authority. The provincial CPC committee's organization department, personnel bureau, and science committee drafted policies for the flow of personnel and technology, and the provincial Department of Chemical Industry also made plans for township and town enterprise development of small scale chemical plants.

**Guizhou: Revival of Township and Town Enterprises in the Midst of Difficulties.** *Gross Output Value for January Through August 1992 Up 25 Percent Over the Same Period in 1991.*

Guizhou's township and town enterprises, which suffered severe difficulties and tests, and whose speed of development reached low ebb for a time, began to revive in the midst of hardships during 1992. Statistics show a gross output value of 4.734 billion from township and town enterprises throughout the province, payment of 152 million yuan in taxes, and 340 million yuan of profits realized as of the end of August. This was a respective increase of 25, 20, and 19 percent over the same period in 1991. This included a gross output value of 3.149 billion yuan from township and town industries, up 32 percent over the same period in 1991. Principal products and raw materials were coke, pig iron, and fermented spirits, all of which were produced in appreciable larger quantities than during the same period in

1991. The vertical comparative achievements [bichengji 3024 2052 4921] of Guizhou's township and town enterprises are not inconsiderable, and their lateral comparative gap [bichaju 3024 1567 6415] is very large. Currently, the gross output value of the province's township and town enterprises ranks twenty-fifth in the country; the province is at the very bottom in overall level of development; the work force it accommodates is only one-third the national average; peasant earnings from township and town enterprises are only one-third the national average; and the township and town enterprises labor productivity rate is only one-half the national average.

In order to turn around this seriously unbalanced backward situation, following numerous studies the Guizhou Provincial CPC Committee and provincial government inaugurated a policy in July 1992 that is more concessionary and more liberal than at any previous time: CPC committees, the provincial NPC, government, CPPCC, and discipline committee are all responsible for and must exert efforts for the development of township and town enterprises. Principal leaders in the CPC committee and government are to take charge personally and bear primary responsibility.

All prefectures, zhous, cities, and counties are to plan new projects and, circumstances permitting, they are to give township and town enterprises operating priority. Arrangements are to be made for township and town enterprises to run most "spark" projects. The needs of township and town enterprises for electricity, transportation, funds, and materials are to be treated the same as those of state-owned enterprises, made part of plan, and everything possible done to support them.

The provincial Township and Town Enterprise Bureau is directly subordinate to the provincial government. All prefectures, zhous, cities, and counties can set counterpart organizations along the same lines. They must first send a number of capable cadres, people versed in administration and management, and technically qualified people to bolster the leadership of township and town enterprises bureaus at all levels.

Beginning in 1993, 400 million yuan is to be guaranteed and efforts are to be made to allocate 500 million yuan as credit for township and town purchases of additional fixed assets. The amount of government credit funds used in township and town enterprises is to be increased, efforts made to increase them 50 percent in 1993.

Establishment of provincial, prefecture, and county township and town enterprises development funds. Sources of money for these funds are as follows: First is provincial government provision of 20 million yuan each year; second is repayment to local governments of 50 percent of the additional amount of taxes that township and town enterprises pay into the treasury each year for inclusion in counties development fund. Third is the collection of a management fee by all departments in charge of township and town enterprises at all levels. All

amounts remaining after normal payments are to be transferred to the development fund.

Assignment in a planned way of a number of administrative and managerial personnel as well as technical personnel to lead and help with the operation of township and town enterprises. Support is to be provided and the number of cadres detached from party and government organs are to be increased for engaging in various kinds of economic activities including in primary, secondary, and tertiary industries.

Collective township and town enterprises may withhold between 1 and 2 percent of before-tax sales revenues for a technical development fund to be used for the development of new technology and new products.

State-owned enterprises and urban collective enterprises that distribute profits of less than 300,000 yuan from the operation of township and town enterprises that use share purchases to pay for equipment, capital, and technology are exempted from the payment of income taxes. Those enterprises that distribute more than 300,000 yuan are exempted from payment of half of the income tax. Enterprises that distribute products and parts to township and town enterprises may distribute between 10 and 20 percent of their after-tax profits for three consecutive years. Distribution of profits of partnership enterprises are to be regulated by the enterprises themselves.

Once the funds arrive, those responsible for attracting them are to be appropriately rewarded.

Continued enforcement of previous policies for tax reductions or exemptions. Beginning in 1992, township and town enterprise income tax payments may be reduced by half subject to approval. Following certification as a new product in the jurisdiction by the authorities concerned in prefectures and cities, township and town enterprise newly developed products may be exempted from the product tax or the added value tax for two years. That portion of added value resulting from township and town enterprises' raising of funds themselves or from bank loans used for technological transformation may be repaid before taxes.

Township and town collective industrial enterprises may withhold 1 percent of sales revenues before taxes for use as market development expenses.

**Qinghai: Doing All Possible To Catch Up and Generate a New Situation** *Township and Town Enterprise Gross Income From January to July Increased 26.1 Percent Over the Same Period in 1991; Gross Output Increased 18.5 Percent.*

Encouraged by the spirit of Comrade Deng Xiaoping's remarks during his travels in south China, staff members and workers in Qinghai Province's far-flung township and town enterprises have worked hard 1992. Development of township and town enterprises has entered a new stage, and a new situation is in the making for the 1990's.

As of June, gross output value of the province's township and town enterprises reached 326 million yuan, up 18.5 percent over the same period in 1991, the greatest increase in recent years. This included a township and below industrial output value that was 17.2 percent higher than during the same period in 1991, and a 40 percent increase in the gross output value of some counties (districts and cities) in agriculture and animal husbandry, and township and town enterprises. Gross income of the province's township and town enterprises during the first half of 1992 was 299 million yuan, up 26.1 percent over the same period in 1991. The product sales rate was 91.5 percent, up 5.5 percentage points over the same period in 1991. This has been a rarity for many years. Economic returns rose markedly. During the first half of the year, the province's township and town enterprises showed profits of 16.34 million yuan, 16.8 percent more than for the same period in 1991. Tax payments to the state totaled 13.2 million yuan, 30.6 percent more than for the same period in 1991.

The main reasons for this heartening situation in Qinghai Province's township and town enterprises were as follows:

All jurisdictions worked along two lines, one hand dealing with the renovation and technological transformation of old enterprises while the other hand dealt with new project validation, project approval, and new construction. Renovated, technologically transformed, and newly built township and town enterprise projects in the province total 212. Diverse channels were used to raise investment funds totaling more than 70 million yuan, a net investment increase of more than 45 million yuan over 1991. This is an unsurpassed heartening situation. During the first half of the year, 20 key enterprises in the province were selected for participation in a complete quality control campaign. Evaluation and assessment of 20 province level class enterprises was completed. Policies for the development of township and town enterprises were drafted and put into effect. In early 1992, the provincial government convened a provincewide township and town enterprise work conference. The meeting issued *Various Policy Provisions for Vigorous Development of Township and Town Enterprises* as Qingzheng (1992) Document No 41. This document created an unprecedentedly fine environment for the development of township and town enterprises from top to bottom, and both internally and externally.

Party and government leaders from all levels inspected principal township and town enterprises sites talking about instruction services, going outside the province to test, to discuss projects, to raise funds, to recruit skilled personnel, and to create technology. Survey tours outside the province by party and government-led groups from all over the province during the first half of 1992 resulted in more than 30 agreements of intent of various kinds.

All departments concerned changed the way they function to serve the grassroots and do more deeds. During the first half of the year, rural villages at all levels issued a total of 31.3 million yuan in loans to township and

town enterprises. This was 4.04 million yuan more than during the same period in 1991, up 14.8 percent.

Industrial and commercial, and audit departments, as well as other units concerned with supervising the economy helped the healthy development for township and town enterprises. The provincial tax bureau specially inaugurated regulations pertaining to township and town enterprises and peasant and herdsmen tax preference policies.

**Ningxia:** During 1992, the Ningxia-Hui Autonomous Region made the spread of township and town enterprises an extremely important emphasis in vigorous development of the economy of the entire region. It drafted concessionary policies, practiced an all-points opening to the outside world, vigorously reformed, and accelerated the pace of development, township and town enterprises performed better as a result. Between January and September 1992, the number of township and town enterprises reached 82,000, employing 246,000 people, and producing a gross output value of 1.39 billion yuan, which was 23.8 percent more than during the same period in 1991. This included a township and town enterprises gross industrial output value of 670 million yuan, up 21.8 percent over the same period in 1991, a gross income of 1.33 billion yuan, up 21.3 percent over the same period in 1991, profits of 121.859 million yuan, up 18.1 percent from the same period in 1991, and tax payments of 54.573 million yuan, up 23.4 percent over the same period in 1991.

Following publication at the beginning of the year of Comrade Deng Xiaoping's remarks during his travels in south China, the autonomous region's CPC committee and government devoted extraordinary attention to the development of township and town enterprises throughout the region. They promptly readjusted plans, bearing in mind the regionality of the autonomous region and its resources, called for a doubling of the gross output value of township and town enterprises during the Eighth Five-Year Plan for the realization of a "leap-style" development combat goal.

In order to complete this task, the autonomous region increased the amount of credit, the Bank of Agriculture system and the specialized banks providing loans in excess of 200 million yuan to township and town enterprises during the first nine months of 1992. In its policy toward scientific and technical personnel, it permitted scientific and technical personnel in government organs at all levels, social bodies, and institutions having administrative and management functions (including cadres and technical workers in administrative and management jobs) to operate, lead, and lease on contract township and town enterprises while retaining their existing positions with pay, retaining their existing positions without pay, resigning their positions, leaving their positions, transferring temporarily, taking early retirement, or holding their current positions concurrently. The number who did so was larger than for the whole year in 1991. In addition, the autonomous region treasury increased from 500,000 to 1 million yuan the



amount of discounted funds set aside for township and town enterprises, and increased the amount of their working capital from 700,000 to 2 million yuan.

In the examination and approval of township and town enterprises projects, the autonomous region delegated examination and approval authority for projects costing 15 million yuan to the autonomous region government department in charge; and it delegated examination and approval authority for 10 million yuan projects to prefecture, city, and county government units in charge. The autonomous region planning committee also allocated 50,000 tons of annual railroad transportation plans to township and town enterprises.

**Tibet: New Force Emerges on the Snowy High Plateau**  
*Number of Region's Township and Town Enterprises Increases From 798 in 1980 to More Than 8,660.*

The Tibet Autonomous Region is treating development of township and town enterprises as a strategic action for accelerating development of Tibet's national economy and for leading the far-flung peasants and herdsmen to a comfortably well-off standard of living. Statistics show that township and town enterprises in Tibet have grown from 798 in 1980 to 8,662 in 1992; the number of people they employ has increased from 9,800 to 45,172; and their gross income has increased from 2.94 million yuan to 202,500 million yuan in a respective 9.8 fold, 3.6 fold, and 7.9 fold increase. Today, township and town enterprises throughout the autonomous region have developed from uniformly collectively owned and collectively operated enterprises to enterprises under different forms of ownership operating in many different ways, a "four wheel drive" pattern of township operation, village operation, partnership operation, and individual household operation taking shape.

The overall objectives for township and town enterprises that the Tibetan Autonomous Region has drafted on the basis of realities in Tibet include the following: Establishment of a number of township and town enterprise communities that can respond to market changes, that have a certain level of technology, that have a certain production and operation scale, and that are themselves fairly able to accumulate and develop to become an important force in supporting agricultural and pastoral production and the building of agricultural and pastoral areas, and to increase agricultural and livestock industry income and local government revenues.

**Hainan: Curtain Has Opened on Super Normal Development.** *Gross Output Value of Township and Town Enterprises for the Period January Through August Increases 49 Percent Over the Same Period in 1991.*

Hainan's township and town enterprises, which developed slowly for a time, opened the curtain on super normal development in 1992. Between January and August, the province produced 430 million yuan of gross output value from its township and town industries, 49 percent more than for the same period in 1991.

Hainan Province has set as its overall objective gross earnings of 2 billion yuan and a gross output value of 1.8 billion yuan from its township and town enterprises during 1992, and a quadrupling of their industrial output value by 1995. At the beginning of 1992, and particularly following the remarks of Comrade Deng Xiaoping during his travels in south China, a fervor has sprung up for going all out and moving quickly to accelerate the development of township and town enterprises. Leaders of all cities, counties, townships and towns are personally devoting attention to township and town enterprises, are personally looking for projects and evaluating projects, and are personally going to banks and to the treasury to raise funds. During 1992, 95 fairly large projects were newly begun throughout the province, investment in them totaling 250 million yuan. This included 100 million yuan raised inside and outside the province in addition to 100 million yuan support from the state, and another between 50 million and 100 million yuan raised through the sale of shares to the public and that enterprises themselves raised.

#### **Township Enterprise Expansion Problems, Countermeasures**

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[MANAGEMENT WORLD] in Chinese No 5,  
24 Sep 92 pp 208-209

[Article by Shu Rongqing (2631 2837 1987): "Causes and Countermeasures for the Slowdown in the Development of Township Enterprises of Scale"]

[Text] Since reform of the economic system, township enterprises have been a new force coming to the fore and have given strong impetus to the development of agricultural productive forces. But the vast majority of Chinese township enterprises, because of numerous special restrictions, still have a series of initial stage weaknesses that they have been unable to avoid. The "three numerous," stand out, that is the decentralized "small and complete" and "small and crude" duplicatively distributed enterprises are numerous, labor intensive industries are numerous, and primary raw material processing products are numerous, leading to a rather large number of township enterprises with a comparatively low level of accumulation. Up to now, several enterprises still rely on duplication and extension for development, rely on preferential policies for survival, rely on product price adjustments for returns, and rely on excess prosperity for sales, and essentially lack the capability to contend with the rapidly changing market. This reporter believes that both in regions where township enterprises are developed and regions where they lack development, we must do a rather good job of overcoming the abuses described above so that the greatest use can be made of present accumulated assets, and organizing enterprises of scale is a rather good way.

At what point enterprises can be called enterprises of scale has not yet been strictly delimited. It depends on the overall level of development of each township's enterprises. It is for relevant administrative or control

departments to stipulate different critical starting points according to different periods of time and different situations. Enterprises of scale are not simply an expansion of the scale of enterprises, seeking the bigger scale the better, and it is not merely expanding the scope to bring in some more productive factors and to seek scale, but it is operational activity with the fundamental goal of having the enterprise achieve performance of scale by adjusting the industrial structure, updating products, optimally distributing productive factors, and improving the producers' own quality in accordance with the major industrialized production demands. Generally speaking, the economic and technical strength of enterprises of scale are comparatively solid and productive operations are relatively stable. Not only do they have the capability to develop new products, a comprehensive and complete capability, and capability for a network of services, but, even more, they have the capability to react to the market and the capability to compete. So, if township enterprises want to have strong and healthy "constitutions" desire to be able to develop in a healthy and stable manner, they must avoid simply pursuing expansion of volume, low-level duplication, and development with low performance, and concentrate their efforts to increase their level and scale, seeking a breakthrough in raising their external orientation and improving their economic performance. Thus, their goal of development of enterprises of scale will be inevitable.

But, for a long time, townships have had a hard time developing enterprises of scale, and among the causes are problems in the leadership sector and problems in the enterprises themselves.

**1. The foundation is not solidly laid.** The first thing is that in their work they are content with short-term results and quick benefits and have stressed only implementing short-term plans and overlooked carrying out long-term plans. The second thing is that they are incapable of directing their focus on mainstay enterprises; they have concentrated only on balanced development and have overlooked strengthening key points. The third thing is that in the rate of development, they have concentrated only on increasing volume and have overlooked improving quality. Because in their work they attend to one thing and lose sight of another, the enterprises' overall capabilities cannot meet the requirements for developing enterprises of scale.

**2. Their internal desires are not strong enough and their spirits are not raised.** In their work they often are troubled by various phenomena and scared off by the word "difficult." They do not have a strong spirit of innovation and believe that in developing enterprises of scale they need to take risks and still have the insurance of small-time operations. They do not strive for the best, they only plan to get through, they do not seek to do it well. They think only of saving trouble, they do not think of contributing more.

**3. Key factors are mutually disjointed.** The pace of product updating is too slow. Despite the fact that some enterprises have developed new products, the pace of the

development in scale of new products is slow because they do not have assurances of strong backing. Second, talent is scarce. If they have only good products and lack good technical and administrative talent, they miss the opportunity for development. Third, funds are deficient, investment is inadequate, and technical equipment is backward, and enterprises cannot attain the demands of high-efficiency operations. Fourth, management is loose and uneven, causing performance to be low. The management stage for the vast majority of enterprises is still stuck at the experimental level.

**4. They are incapable of forming integrated mechanisms.** First, is that there is an inclination to shout a lot, but do little in regards to investment, and funds are loosely distributed. Second, the duplication of distribution points. The market competition between small enterprises and large enterprises creates unnecessary internal waste and dispersal of forces becomes ever greater, restricting the big enterprises' abilities to integrate. Third, policy formulation is standardized, technical forces are dispersed, and setting up of groups is matched up, artificially weakening the capability that enterprises need to expand their scale.

Based on the analysis given above, townships that want to do a good job of developing enterprises of scale should adopt the following few countermeasures:

**1. Enhance their awareness of the effect and the significance of developing enterprises of scale.** First we should unify the thinking of the leadership at every level and come to a clear understanding of the "leading" role that the development of enterprises of scale plays in the development of the local region's economy, and create favorable internal and external conditions for development of enterprises of scale in such aspects as leadership forces, material assistance, and policy encouragement. In guiding and developing enterprises of scale, the leadership and their administrative departments should have great courage and resourcefulness, while using meticulous care in determining policy. That is, they should bravely assume risks and should enhance scientific forecasts and accurately select high, sophisticated, and acute product targets and with repeated proof, combine a scientific attitude with a spirit of braving risks and spare no costs as regards out and out high technology products and projects, translating good aspirations into actual solid efforts. In addition, the thinking of enterprise leaders should be unified and education in the four spirits enhanced. The first thing is to foster the development of innovations and a spirit of reform and striving to get ahead. The second thing is to foster a spirit of arduous struggle and self-reliance. Where conditions are present, they should go ahead and where conditions are not present, they should create the conditions. The third thing is that they should foster a spirit of ceaselessly striving to get ahead and making unceasing efforts to improve themselves, treasuring the great successes of the enterprises built from scratch, and based on the present scale, leap to higher starting points. Fourth, is to foster a spirit of contributing to the state and to the people and

using their own model activity to influence and drive the development of their own enterprise as well as others. In addition, they should unify their attitude of serving work and enhancing awareness that if the enterprise prospers, I prosper, and if the enterprise declines, I am disgraced. This will help to form a strong reserve pool to support the development of enterprises of scale, while helping enterprises do a good job of organizing productive factors, distribute work optimally and efficiently, and ensure that enterprises are not traveling a crooked road. However, as early as possible, form the advantage of production of scale.

**2. Strike a firm foundation and improve the internal environment.** The development of enterprises of scale is based on the intense economic competition of talent and commodities. Ultimately it comes down to the competition. Getting good control of the human factor is extremely important. In providing for the organization of enterprises of scale, at every stage from the designing of the organizational structure, to the operation, to the allocation of personnel, to the selection and evaluation of administrative personnel, they must get a firm grasp on reality, and by no means neglect one aspect at the expense of another. First, they must assign enterprise leaders who understand business and are good administrators. Abiding by the five principles of appropriate personnel matters, appointing people on their merits, utilizing the strong points of the people, open competition, and talent to help one another, in every time and every place, they must ensure the relative stability of this leadership. Even though some personnel are transferred, they must ensure the continuation of the leadership and they absolutely cannot have a break in levels. The second thing is that in doing a good job of assigning factory directors [they must] grasp the five factors of virtue, learning, talent, understanding, and quality. Special among these are "virtue" and "talent." "Virtue" is realized in the need to have strong administrative aspirations and the need from their innermost being to want to be this factory's administrator, braving risks and wanting to put forth effort and sweat to develop an enterprise of scale. "Talent" is realized in administrative ability and the need to have overall capability to recognize problems, analyze problems, and deal with problems. The third thing is the need to do a good job of assigning a strong and powerful technical force. If they want to ensure development of enterprises of scale, they must be extremely attentive to two aspects: The one aspect is the need to fully respect technical personnel and let them put their talents to good use, participate in management, and participate in making policy, and guard against officiousness. The other aspect is that, based on letting them fully use their present knowledge, they must constantly improve their training and guard against slighting training while emphasizing use in order to meet the needs of developing enterprises of scale.

**3. Enhance supervision and control functions and promote the development of enterprises of scale.** As far as the township leadership and administrative sectors are concerned, there are presently three tasks that they must set

about doing well. The first is to enhance supervision and control of industries and avoid duplicate distribution points and, as much as possible, support high-quality, high-demand products; approach serialization, complete sets, and basing; convert in a planned way from a dispersed to a centralized form; increase the scale function and the ability to contend with the market of present leading products; and reduce unnecessary internal waste. The second thing is the need to increase organizational supervision and control based on present superiority. Beginning with industries that already have formed a certain amount of scale and have rather great potential, emphasize the development of two to three products and industries with a certain superiority to develop enterprises of scale and make corresponding adaptations in product quality, technical capability, and enterprise management levels, selecting the superior and weeding out the inferior and determining to merge what should be merged. At the same time, the advancing steps should be safe. They should adopt measures by echelon and by stage. They cannot have damage to the enterprise's original vitality and they should not recklessly seek to out do one another or recklessly increase the scale. The third thing is that they need to improve the supervision and control of enterprise internal management. First, they need to realistically improve enterprise rectification and do extensive enterprise upgrading and goal attainment activity. Second, in intangible and tangible input, they need to totally concentrate on the ratio of input to output and strive to improve economic performance. In addition, they need to tighten factory regulations and factory discipline and various labor systems and concentrate their efforts on labor productivity.

**4. Increase investment and establish support systems.** It is necessary to make large investments to ensure development of enterprises of scale, and large investments are strictly required especially in some sophisticated projects and in infrastructures, and they will not see results in the short-run. In investments they cannot be timid, and what is more, they cannot be opportunistic. They must have a big heart, and start large undertakings with foresight and sagacity. In the present generally tight financial situation, it is necessary to open channels, to tap potential, and to strive to create conditions to establish strong financial support systems suited to developing enterprises of scale. The key is to get good control of two segments. The first is to formulate an investment plan to ensure that the investment is orderly and the limited finances are used on the cutting edge. The second is to widely exploit financial resources and raise all types of funds to provide a reliable financial guarantee for the development of enterprises of scale.

**5. Vigorously promote integration of production and sales and accurately select coordinated projects.** Township enterprises of scale must adhere to the principle of "appropriately integrating and unifying production and sales." Beginning from developing reputable products, expanding production capabilities, and satisfying market demands, in accordance with the coordinated demands of the specialized division of labor, based on their own

technical base, equipment, and production capabilities, they must seize opportunities to develop large- and medium-sized enterprises. They must actively select coordinated projects with large- and medium-sized enterprises, giving special emphasis to such product assembly projects as processing and parts. At the same time, if townships want to develop enterprises of scale, they must break out of their own closed circle and rely on the present advantages of large- and medium-sized enterprises. In addition, they must implement multilateral cooperation to gain technical, equipment, financial, and management assistance to ensure that enterprises of scale remain strong for a long time.

(The author is party secretary of Beilonggang Township on the outskirts of Yancheng City.)

## FOREIGN TRADE, INVESTMENT

### Differences in Copyright Law, TRIPs, Other IPR Conventions

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in Chinese No 131, 27 Nov 92 pp 29-31

[Article by Zheng Chengsi (6774 2052 1835), affiliated with the Law Institute of the Chinese Academy of Social Sciences: "The Differences Between TRIPs Industrial Property Rights Regulations and Relevant PRC Laws"]

[Excerpt] [Passage omitted]

### II. Patents and Categorical Patents

The *Agreement on Trade-Related Intellectual Property Rights* (TRIPs) uses the word "patents" differently than does the PRC Patent Law, with TRIPs using the word to mean only patents on inventions. As TRIPs does not involve "new utility models," and does not call protection of other creations, such as exterior designs, "patents," we will temporarily call items, such as exterior designs and integrated circuit layout designs, "categorical patents."

TRIPs allows contracting parties to grant patents aimed at protecting humans, plants and animals, the environment, or public health, but refuses to allow them to be granted for certain inventions (even though these inventions per se are not classified as "items that cannot be patented"). TRIPs regulations allow for only the following two classifications of "items that cannot be patented": 1) diagnostic and treatment methods for humans or animals; 2) plants and animals that are not microorganisms. Meanwhile, TRIPs also requires contracting parties to provide either special legal protection to new plant varieties, or patent law protection if they do not have special laws. As the PRC Patent Law does not protect new plant varieties, and we have no other special laws on them, China probably does not meet TRIPs requirements on this point.

TRIPs patent regulations on things, such as patent contents, general rights restrictions, and minimum protection periods, are already totally met by the PRC Patent Law Amendments of July 1992. TRIPs regulations on the special rights restrictions of "mandatory

permits" are basically met by the PRC Patent Law Amendments. As TRIPs requirements on exterior design protection are quite simple, the PRC Patent Law Amendments also fully meet them.

As to integrated circuit layout designs, China is in the process of drawing up special laws to protect them. The drafters of these special laws should note that the PRC signed in 1989 the *Intellectual Property Rights (IPR) Treaty on Integrated Circuits* (although this treaty is not yet in effect). While Article 6, Section 3 of this treaty allows member nations to apply mandatory permits to such IPRs, TRIPs on the other hand does not permit mandatory permits. So when drawing up these special laws, the PRC must consider very carefully whether to include a clause on mandatory permits.

### III. Prohibition of Improper Competition

Prohibition of improper competition is listed in the *Convention on the Establishment of World Intellectual Property Rights* as one of the IPRs that intellectual creators should enjoy, as well as being regarded in the *Paris Accord* as a minimum domestic legal requirement for member nations. But if we note the relevant regulation in the *Paris Accord* (1967 version) that prohibition of improper competition "is the essential basis on which all member nations establish legal institutions against improper competition," this departs from the historical facts in two areas.

On one hand, long before Sections 2 and 3 (on improper competition) of Article 10 of the *Paris Accord* were added, quite a number of countries already had laws prohibiting improper competition. On the other hand, the *Paris Accord* in this respect already has regulations far lower than the legislative basis for a member nation (including the PRC).

While the text of the *Paris Accord* lists only three actions that should be prohibited as improper competition, which are focused on visible commodity trade, the World IPR Convention summary of *Exemplary Laws Prohibiting Improper Competition* lists many more.

In the more than two decades of development since the 1967 version of the *Paris Accord*, increasing importance has been paid to prohibition of improper competition in protecting technical secrets and other nonpublic information, which was almost nonexistent in the *Paris Accord*.

The GATT TRIPs specially make protection of nonpublic information a key regulation in the prohibition of improper competition. They require that the information to be given the most protection should meet the following three conditions: 1) that all or part of the information not be public knowledge in its field; 2) that the information be secret and have commercial value; 3) and that the information's legal owners have taken reasonable security measures.

TRIPs requires that all contracting parties should ensure that the legal owners of nonpublic information are able to prohibit unpermitted acquisition or use of the pertinent information through means that violate honest

operations, and that the parties concerned also be granted "active rights." These so-called "means that violate honest operations" include at least 1) violating contracts and 2) leaking or inducing others to leak secrets. TRIPs also specially emphasizes that contracting parties should take steps to protect nonpublic drug prescriptions or agricultural-use industrial chemical data, in order to keep others from leaking or making improper commercial use of them, so that the deserved intellectual achievements of the developers of these products are protected. Meanwhile, TRIPs provides for exceptions that are in the "public interest."

In relation to IPR licensing trade, TRIPs also lists abuse of proprietary rights to obstruct technology transfer and transmission as improper competition, requiring that it be prohibited in contracts.

The PRC's existing *Contract Management Regulations on Technology Imports* and their detailed rules and regulations roughly meet all of the above requirements. And our Civil Law's General Rules also meet them in principle. Of course, more effective protection still awaits formulation of the PRC Law Prohibiting Improper Competition that is now being drafted.

When drawing up this law, in addition to paying attention to the relevant GATT TRIPs provisions, we should also understand and emphasize our existing judicial practice, as well as the legislative experience of other countries.

The PRC Supreme Court's 1990 Bulletin No 3 reported cases of prohibition of improper competition by PRC courts based on Articles 4, 5, and 7 in our Civil Law's General Rules. And our press reported similar cases in May 1991. Certain foreigners who do not understand the Chinese legislative and judicial processes have arbitrarily claimed that PRC courts "have never" prohibited improper competition "in accordance with PRC Civil Law's General Rules," which shows their ignorance of the PRC's status quo.

Meanwhile, when drawing up (or amending) their laws prohibiting improper competition, many countries throughout the world have given consideration to protecting matters that are not protected in patent or trademark laws, in order to ensure that their laws on prohibition of improper competition supplement these two industrial property rights laws to become a third industrial property rights law standing side by side with them. For instance, Japan's 1990 *Prohibition of Improper Competition* Amendment 5 adds provisions on protecting nonpatented technology products, and Canada's 1976 Trademark Law explicitly regards prohibition of improper competition as a supplementary protection to trademark rights. These laws, as well as the GATT TRIPs, all grant in substantial provisions certain "active rights" to those with the authority to prohibit improper competition, i.e., "that interested parties whose rights or interests are infringed upon by others through improper competition can take legal action to stop it." This is exactly the same right given to holders of patents,

trademark rights, and copyrights. And this is precisely why Western countries have always called IPRs "things in action."

Some have interpreted "improper competition" as "unfair competition." But if in our discussion of the matter, we fall into the trap of debating the distinction between "improper" and "unfair," reaching the conclusion that "the former cannot simply be summed up as the latter," we are likely to get sidetracked into playing wordgames. There is a significant distinction between "prohibiting improper competition" and "opposing monopolies," and the GATT's major TRIPs on IPRs certainly do not involve the matter of "anti-monopoly laws."

### Importance of Joining GATT Despite 'Blow' to Economy

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[Article by staff reporters Li Zhengping (2621 3630 1627) and Li Delai (2621 1795 0171): "GATT: Sooner or Later the Blow Will Fall"]

[Text] More and more people believe that China will return to GATT sooner or later. This is because people know that this is the inevitable result of China's accumulating momentum for about a dozen years in reform and opening up to the outside world, and heading toward a complete opening up in which in the end it will blend in with the world.

Joining GATT has become a hot topic of conversation in contemporary China. GATT is both a "trade code," which 104 contracting parties jointly abide by in international trade activities, and something that can be described as an international agreement. At the same time it also counts as an international organization. Its main activities are to organize and chair multilateral trade negotiations on tariff diminution. Thus, it causes each contracting party to benefit from mutual tariff diminution. It and the IMF and World Bank have become the three main pillars for coordinating the world economy in the present era.

What is impelling China and GATT toward a closer and closer connection, besides the fact that GATT holds a decisive position in international trade, is the fact that the proportion of the trade volume of its contracting parties is 85 to 90 percent of the world's trade volume. In addition, in China's entire economic life, its foreign trade is less and less to be belittled. The position of foreign trade in China's entire national economy is rising swiftly; in 1991 China's imports were worth \$71.9 billion, or 20.1 percent of its gross national product (GNP). China's trade volume with GATT contracting parties is more than 85 percent of its total trade volume.

In the contemporary era, when global trade ties are becoming stronger, the 104 GATT contracting parties, to protect their own interests, hold forums to speak out on important economic issues. China, which has already entered the international arena, being dissociated from

GATT, when contending with these opponents has been unable to grasp the basis on which the other side breaks the rules, and has even been unable to find an impartial "referee." In other words, when China does business with the 104 signatory countries and regions, they get many advantages from each other, but China does not necessarily reap any advantages. However, they cannot at will make reprisals and impose sanctions, actions that could easily fall on China's head. This is the cost of staying out of GATT.

In the early eighties China prepared to return to GATT, and in July 1986 China formally applied for restoration of its position as a GATT signatory country. Since then China has experienced many twists and turns, straight up to today's intense publicity campaign, and has taken many measures for reform and for opening up to the outside world:

- A new foreign trade system was put into effect, export subsidies were eliminated, and mechanisms were put into foreign trade management for self-responsibility for profits and losses.
- A number of laws and regulations on foreign economic relations were formulated, to the greatest degree possible according to "international practice," in order to protect the interests of foreign businessmen's investments and to improve the investment climate.
- The tariffs on more than 200 imported products were lowered, and the adjustment tariffs on imports were eliminated.

Looking at the cause of China's 14-year history of reform and opening up to the outside world, the preparations beginning in the early eighties to return to GATT were an inevitable result of China's reform and opening up to the outside world. The return of China, which is reforming and opening up to the outside world and which is imbued with economic vitality, to this international organization will be for GATT a contribution that cannot be underestimated. The world needs China, and China needs the world.

When talking about China's return to GATT, people seem to never get around a price comparison, for instance: on a large scale, domestically a (Sangtana) sedan is sold for several hundred thousand yuan in renminbi while internationally the selling price is much, much cheaper; on a small scale, the price of a bicycle internationally is far, far lower than it is domestically. This kind of numerical comparison without a doubt shows clearly where, after China joins GATT, the blow would fall on domestic products. However, by means of the comparisons we also should be clear about one fact: without the 14 years of reform and opening up to the outside world, I'm afraid that many of China's products today would stand comparison with the outside world's products. Just think, if we had not boldly imported foreign capital and technical equipment, and had not built as joint ventures Shanghai's Dazhong, the No 1 Motor Vehicle Works' Audi, and several other large sedan bases, I'm afraid that in China's urban and rural

areas there would only be small motor vehicles, probably the old-type Shanghai and the canvas-roofed Beijing Green Jeep. If there were not joint venture bicycle firms like Shenzhen's Zhonghua, then running along China's streets and lanes would be old-type bicycles that have not changed for several decades, and probably the bicycles that could be exported would be several old makes like the Feige and Yongyuan.

On the road to expand opening up to the outside world and making use of foreign capital to pursue worldly goods, China at almost every step has suffered a blow. Among the blows that people will gradually receive and empathize with, many will be "international practices" that they have never encountered, from the concept of control to the concept of value.

How many blows does GATT contain? Who can say?

In GATT's more than 40-year history, whenever there was an upsurge in the trend for trade protectionism, a round of multilateral talks would begin, and by 1979 seven such rounds had been held. In the previous six rounds of talks, the tariff rate fell on more than 60,000 items subject to tariffs, and the commodities included accounted for more than half of the trade volume.

Returning to GATT will bring rights and interests, and at the same time it also will entail many obligations. The Chinese Government has publicly promised: once China joins GATT it will eliminate export subsidies, gradually lower tariffs, gradually eliminate import licenses, and reduce administrative intervention.

This is the solemn promise of a sovereign country.

The first of the 97 questions posed to China by the China Work Group of GATT was: "What is the essential meaning of the commodity economy system in which the planned economy and the market economy are integrated?" Viewed today, after the 14th CPC Congress, this question is of no significance. GATT has put many, many queries to China, and some of them have already been taken care of. For example, beginning this year, the tariffs on more than 200 kinds of import commodities have been lowered. Beginning on 1 April this year, import adjustment tariffs were eliminated, and some other tariffs are now being eliminated or will be in the next deepening of reform that is about to begin. China's further reform and opening up to the outside world will be more and more tightly linked to the world economy, and the changes in the external world will also have increasingly far-reaching effects on China.

People estimate that the return to GATT will be China's true entry into the international economic cycle and an important turning point in the international division of work.

After going through more than 10 years of reform and opening up to the outside world, China's economy possesses the strength to take part in international economic activity. A relatively stable international trade climate will also be an important, reliable force for China's economic takeoff. Precisely as an authoritative

figure has said: None of GATT's contracting parties has collapsed because it joined GATT, and there are no lack of examples of, because of joining GATT, the contracting party's foreign trade has expanded and it has experienced an economic takeoff. On the other hand, there is also no lack of examples of countries that did not join GATT, and also were unwilling to reform their economic systems, thus causing a complete collapse of their regimes.

## LABOR

### Study Views Two Unemployment Peaks of Past 10 Years

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[Article by Feng Lanrui (7458 5695 3843): "Comparative Study of Two Unemployment Peaks in Past 10 Years"]

#### [Text] I. Two Unemployment Peaks in the Past Ten Years

Newspapers in China and abroad have raised an alarm in recent years about unemployment in China. The published figures indicate 10.5 million urban residents would be in need of employment in 1989. By the end of the year, 4.9 million were placed in jobs and 5.8 million remained without work. Forecasted unemployment rose from 2.06 percent to 3.8 percent, which was the second unemployment peak in China within a ten-year period.

The first unemployment peak occurred in 1979, when there were more than 15 million unemployed and the unemployment rate reached 5.8 percent. Faced with these difficult conditions, the state adopted the policy of reform and opening up, developed many economic sectors, readjusted industrial structure, and opened up more avenues to employment. These measures brought quick success. A cumulative total of 78.8 million persons found employment in ten years, and employment patterns were normal. By normal employment patterns we mean two things. First, about 10 million persons require employment in one year throughout the country; employment pattern are normal when basically all of these people can find employment in the current or following year. Second, the unemployment rate must be under 3 percent. These two numbers are empirical data obtained through practice in the ten years between 1979 and 1988. Measuring against these two standards, employment patterns were normal from 1983 through 1988, and the situation was best in 1985, when 10,521,000 persons were in need of employment, and 8,136,000 found it, leaving 2,385,000 unemployed at year's end. The unemployment rate was only 1.8 percent, the lowest in the ten-year period. These three figures rose slightly in 1986, and the situation remained about the same during the following two years. The unemployment rate in 1988 was only 2.06 percent. The worst employment picture during the ten-year period occurred in 1989, when only 47 percent of those in need of employment found it (and the actual percentage was not even

that high), 27 percentage points below the previous year and 11 percentage points lower than in 1979. The unemployment rate was 3.8 to 4 percent, almost twice as high as the previous year. Furthermore, the trends indicated that 1989 was only the beginning of a longlasting unemployment peak. How long will it last? That will depend on changes in economic development, employment policies, and other related factors.

#### II. The Different Historical Circumstances of the Two Unemployment Peaks

The 1979 unemployment peak occurred on the heels of the Cultural Revolution's destruction of productive forces and the resulting three-year period of stagnation. The national economy was on the brink of collapse and had not yet recovered. Growth was slow. The new rural household contract responsibility system was still controversial. Agricultural production was still low, and great amounts of surplus labor had not yet appeared. The structure of the national economy required readjustment; agriculture, light industry, and heavy industry were severely out of proportion with relation to each other, and tertiary industry was very underdeveloped. The urban economy was uniformly under the system of ownership by the whole people. The system of collective ownership existed in name only. Private entrepreneurship, which had been abolished during the Cultural Revolution, had not yet revived, and other economic sectors had not yet appeared. The highly centralized economic system had not yet been changed, and the market mechanism had not yet had any impact. The supply of goods was scarce, and the economy was not working well. Such problems as these represented one side of the issue. At the same time, 1979 was a year of great hope. The Third Plenary Session of the 11th Central Committee had just been held. The overall program of reform and opening up which was passed during the session was like a clap of spring thunder announcing the end of a hard winter. The earth began to return to life. A new period of economic reform began, creating the preconditions for a resolution of the unemployment problem.

The unemployment peak of 1989 occurred under completely different circumstances. The ten years of reform and opening up had achieved significant progress, and economic and social life had undergone significant changes. The socialist commodity economy had achieved legal status and had brought rapid development. Although the market mechanism was not sound, nevertheless, markets for capital goods, funds, and "labor and services" had begun to appear, and the economy was becoming more and more active. The rural household contract responsibility system linking income to production had spurred the development of productive forces and had released large quantities of surplus labor, which migrated to the cities. As long as the socialist economy occupied a position of predominance, the state allowed the development of a variety of other economic sectors. Collective, individual, and other types of nonsocialist economic activities all developed to different degrees, and the formerly uniform system of



ownership moved toward greater diversity. Tertiary industry arose, and the three industrial sectors moved toward a more appropriate balance. The national economy grew at a relatively rapid pace.

On the other hand, several problems appeared in economic and social life, such as inflation, rising fiscal deficits, expanding trade deficits, etc. These problems reflected the sharpening of conflict between the high growth rate, on the one hand, and low economic benefits and efficiency, as well as between aggregate supply and demand. Lack of separation between government and enterprises, abuse of power for personal enrichment, bureaucratism, and corruption were growing worse, causing discontent among the people. The government began in the third quarter of 1988 to rectify economic order and improve the economic environment. It tightened its belt in both fiscal and monetary policy. The grassroots level suffered economic hardships. Beginning in 1989, the government further applied the brakes to the economy, suppressed consumption, and clamped down on capital spending, which led to a market slump and stagnating production. All categories of enterprises met with varying degrees of shock, falling into a "triple shortage" of funds, energy, and raw and semi-finished materials. In state-run enterprises, production slumped. An increasing percentage of them began to lose money, and more of it. The resulting increase in state subsidies weighed heavily on the government. Tens of thousands of collective (including township enterprises), individual, and privately run enterprises closed down or suspended production. The entire national economy was on the verge of further decline. It was against this backdrop that the second unemployment peak in a decade occurred.

### III. The High Natural Growth Rate of the Urban Labor Force; a Comparison Between the Causes of the Two Unemployment Peaks (1)

One reason for both unemployment peaks was a high birth rate which caused a high natural growth rate in the labor force. The unemployment peak of 1979 was related to the fact that the baby boomers born in the post-Liberation period began reaching working age in the 1960's. There were more than 3 million new urban workers in the nation in 1967. In addition, the Cultural Revolution of the 1960s caused great destruction to the national economy. The number of jobs dropped sharply, and the problem of unemployment became prominent. At that point, the government resorted first to persuasion and then to coercion to send 15 to 16 million high school and middle school graduates to settle in the countryside. The implementation of this major policy temporarily alleviated a very serious unemployment problem, but it laid the seeds for an even more severe unemployment peak. One serious aftermath of sending educated youths to the countryside was that when this policy, which ran counter to the laws of societal development, could no longer be continued, millions of youth poured back into the cities like water from a burst dam, bringing the unemployment peak of 1979.

The high natural growth rate of the urban labor force was also undoubtedly one of the main reasons for the beginning of the second unemployment peak in 1989. The baby boomers born in the 1960's and 1970's had all reached working age by the 1990s. The number of urban residents seeking employment in 1989 was 10.5 million. It had been forecast that 4.9 million of these would be placed in jobs, leaving 5.6 million unplaced and an expected unemployment rate of 3.8 percent. In actuality, only 3 million persons were placed in jobs, leaving 7.5 million unemployed. The actual unemployment rate far exceeded the expected level. The labor force was expected to grow in 1990 by 4.5 to 5 million. With the carryover of 7.5 million unemployed from the previous year, these two figures alone added up to 12 to 12.5 million unemployed, and this did not include the employees of enterprises which had suspended production, "employed persons awaiting new assignments," "extra personnel" (redundant personnel) within enterprises, and unemployed peasant workers.

The situation of the labor force which has formed in the current unemployment peak is different from that of the labor force which formed during the unemployment peak of ten years earlier. The unemployed educated youth of 1979 were generally older than the youth of the current unemployment peak. Most of them were high school and middle school graduates who had returned to the cities after having been sent down to the countryside. They were known as "the old educated youth." All of these young students were about 30 years old by the late 1970's. They had been toughened through various hardships, and had some work experience and skills. This was not the case with young people who reached working age in the late 1980s and early 1990's. These people have been younger (generally about 20 years old, and only 16 or 17 for middle school graduates). They have had little experience in society, their living conditions have been very good, and they have relatively few skills. As a result, they are more difficult to employ.

In terms of attitudes toward work, there is also a difference between the young people of the current unemployment peak and the "educated youth" of ten years earlier. The young people of today are more demanding and selective. They take into consideration the employer's system of ownership, the difficulty of the work, the job's social status, wages and benefits, distance from home, the social atmosphere, etc. If the job does not meet their expectations, they will not go. If the work is difficult, dirty, or tiring, they will not do it. They would rather "wait for work." In addition, economic development was relatively rapid in the mid-1980's. The urban employment rate was very high, and the number of people that could be supported by one person's income rose. Many young people had families to depend on and were able to wait for better job opportunities. They were not as anxious to work as the "old educated youth" of the late 1970's and early 1980's. This is also one reason why it has been more difficult to find employment for people in the unemployment peak that began in 1989.

#### **IV. The Mechanical Growth of the Urban Labor Force; a Comparison Between the Causes of the Two Unemployment Peaks (2)**

The term mechanical growth of the urban labor force refers mainly to the shift of agricultural labor to nonagricultural labor, and of rural labor to the cities.

Strictly speaking, large-scale migration of rural labor to the cities began a little prior to the mid-1980's. That is not to say that peasants did not enter the cities before that time, however. In reality, a great number of peasants found work in the cities during the Cultural Revolution because enterprises were only allowed to hire people from the countryside. During those ten years, mining and manufacturing enterprises took 14 million rural laborers into the cities, where they established legal residence. However, this was an abnormal phenomenon, since it was not requirements of the development of the forces of production which caused this migration. At the same time, about 16 million urban youths were sent to the countryside even as rural laborers were taking up available work in the cities, so that these urban youths had no chance for employment when they returned to the cities. This artificially induced two-way migration was an important cause of the 1979 unemployment peak.

The situation was different in the late 1980's. First, the shift of agricultural labor to non-agricultural labor was the direct result of the development of the forces of production; it was an inevitable process of "urbanization." The household contract responsibility system with income linked to production raised agricultural productivity. China's scarce land could no longer support such a huge agricultural labor force, which led to serious potential for unemployment. The excess labor force in 1989 was between 150 and 200 million. Peasants had to leave home in search of a living. Furthermore, high pay in the cities was very attractive to peasants, who were making little money. Additionally, the physical comforts and cultural activities of the cities were also very attractive. Finally, housing and other buildings have occupied much land and forced the migration of rural labor. Thus, the migration of rural labor to the cities in the 1980's has been a normal manifestation of economic development and social progress.

Secondly, in terms of impact and final destination, the 130 million laborers who have migrated away from the countryside in the last ten years have differed from those who did so earlier. Statistics indicate that about 90 million of these 134 million agricultural laborers have been absorbed by township enterprises. Many of these agricultural laborers have been hired by mining and manufacturing enterprises in the cities. First, they can happen under two different circumstances. They can be hired as temporary help. More than 10 million people are currently employed outside the state plan in China, and temporary help from the countryside constitutes a considerable percentage of this number. Second, they can migrate to the cities under a state-sanctioned policy generally referred to as "agricultural laborers shifted to

nonagricultural employment." People who have completed "nonagricultural employment" legal procedures and obtained a city residence permit can officially take a job and enjoy the same benefits as other city residents (can buy nonrationed food grains, receive subsidies, have schooling and childcare available, etcetera).

This major, historical shift of China's agricultural labor force has taken different forms. The first has been a spontaneous result of the market mechanism and has been large in scale. Peasants from many undeveloped regions in China's inland provinces have sought employment in China's coastal and developed regions. The state has not responded in a pro-active, conscious, or aggressive manner. When employment has been difficult to provide in the cities, the state has taken administrative measures, such as mobilizing people to return to the countryside. In addition, enterprises have been very happy to hire workers from the countryside. When enterprises hire temporary peasant help, they get cheap labor and do not have to provide benefits (China's benefits system only covers permanent and contract labor). Furthermore, peasant laborers are "obedient" and easy to deal with. When not needed, they can be sent back to the countryside. About 18 to 20 million temporary peasant laborers have used a variety of connections and means to find work in the cities. In times of slow economic development, urban unemployment inevitably rises.

The second form of labor force shift has been a planned result of policy, e.g.—the "nong zhuan fei" procedure, which is officially accepted. This refers to people who have transferred their household registration from the countryside to a city. A survey has indicated that the number of ways to complete "nong zhuan fei" procedures has increased in recent years. The number of "nong zhuan fei" residents, or their children, who require employment is quite large. In Jiangsu Province alone, more than 200,000 cadres or children of cadres (about one-third of the total) who were sent to the countryside in the 1960's have returned to the cities, are eligible for employment there, and are in need of employment.

#### **V. Changing Means of Finding Employment: A Comparison Between the Causes of the Two Unemployment Peaks (3)**

Changes in the means of finding employment have been two-fold in nature. One has involved changes in economic structure, e.g.—the form of ownership. The other has involved changes in industrial structure. In this section I shall discuss changes in economic structure.

In terms of changes in economic structure, we have observed a "narrow - broad - narrow" cycle in the means of finding employment, and a corresponding "high - low - high" unemployment cycle. The narrowness of employment channels in the late 1970's was mainly the result of a long period in which the system of ownership sought to make enterprises "large in scale and collective in nature." At the time, almost all large, urban, collectively

owned enterprises were converted into state-run enterprises. Small, collectively owned enterprises were also merged or reclassified as large collective enterprises. There was no difference in principle between the management of these large collective enterprises and state-run enterprises; they were all subject to unified management under the state (local) plan. Individual entrepreneurship was considered capitalist and subjected to limitations, and even abolished. As a result, laborers were unable to find employment in collective enterprises or through individual entrepreneurship. By 1979, basically the only avenue of employment left was through enterprises under the ownership of the whole people. These enterprises could only provide a limited number of jobs, though, and could not possibly meet the need that year for 15 million jobs. The uniform system of ownership was a major cause of the unemployment peak of the late 1970's.

Then the avenues of employment increased to include collective enterprises, individual entrepreneurship, joint ventures, etc. The cycle turned from "narrow" to "broad." In the ten years from 1979 to 1988, 78 million people were provided with jobs, but beginning in the last half of 1988, the avenues of employment again began to shrink in number, and the trend became even more pronounced in 1989. This change was not a simple repeat of history, though; it exhibited new characteristics. While the unemployment peak of ten years earlier had to do with the fact that there was only one avenue of employment, this second unemployment peak happened because enterprises under the ownership of the whole people failed to provide job opportunities.

Practice has shown that during the last ten years of increasingly varied avenues of employment, work units under the ownership of the whole people have still been the main provider of employment, accounting for about 60 percent of all jobs every year. Since the policy of economic retrenchment began in the fourth quarter of 1988, because enterprises and public institutions under the ownership of the whole people have encountered problems, this source of employment has shrunk, and was largely dried up by 1989.

The state implemented the "double retrenchment" policy [tightened fiscal and monetary policy] in the fourth quarter of 1989, and state-run enterprises across the board encountered the "triple shortage" of funds, raw and semi-finished materials, and energy. As a result, their ability to expand reproduction was weakened, and they hired fewer workers than in the previous two years. The program of improvement and rectification continued in 1989. The money supply was further curtailed, capital spending was discouraged, consumption was reduced, and the growth of total wages was controlled. With regard to management of the labor force, a uniform policy of "less hiring, no replacement, early retirement, and forced departure" was adopted for state-run enterprises. A highly centralized system was adopted once again in the area of hiring. According to the hiring plan handed down by the state, no state-run enterprises were

allowed to do any hiring unless it was to staff new or expanded plants approved by the state. Workers lost through natural attrition (e.g.—due to retirement, injury, or death) would not be replaced, and enterprises had to report attrition numbers to the state agency in charge of hiring, which would then allocate the replacements to work units which had received hiring approval. These two measures have eliminated enterprises under the ownership of the whole people as an avenue of employment. It is estimated that they will result in about 3 million fewer jobs. The other two measures early retirement and forced departure will also inevitably lead to increased unemployment.

The elimination of enterprises under the ownership of the whole people as an avenue of employment has greatly exacerbated the unemployment crisis. What about the situation with collectively owned enterprises and individual entrepreneurship?

Urban collective enterprises, including some township enterprises, have played an important role (second only to enterprises under the ownership of the whole people) during the past ten years in alleviating the unemployment problem. This contribution must be fully recognized. About 30 percent of all newly hired urban laborers have gone to collective enterprises, but collective enterprises established in the past ten years have mostly been set up in order to provide jobs for unemployed persons. Investments have been small, and plant and equipment have been shoddy. The ability of these enterprises to develop and upgrade themselves has been weak. A few years earlier, the state had extended them preferential credit and tax policies, and they were able to develop somewhat, but with the restricted money supply of the past two years, these enterprises have met with the same "triple shortage" plaguing state-run enterprises. In addition, tax-exemptions have expired. Taxes and fees have become heavy burdens, and tough conditions have been attached to loans. Township enterprises were hit with the Agricultural Bank's emergency "zero growth" loan policy in 1989. About 70 percent of these enterprises were having problems at the beginning of the year, and thousands have closed down, suspended production, merged, or shifted production. In 1989-90, the ability of urban collective enterprises and township enterprises to absorb labor was greatly reduced.

The percentage of the national economy accounted for by urban individual entrepreneurs was small to begin with, and it has remained so even though this percentage has risen in the past ten years. The number of people involved in individual entrepreneurship has varied greatly from year to year. The high point was 1984, when 1,068,000 people thus employed accounted for 15 percent of the national economy. This figure dropped sharply to 4.2 percent in 1986. It has risen somewhat in the past two years, with over 800,000 individual entrepreneurs accounting for 10 percent of the national economy. Since the program of improvement and rectification began in 1988, individual entrepreneurs have

not only faced the "triple shortage," but have encountered problems with government policy as well. Some localities have made concentrated efforts to eliminate individual entrepreneurship. By June 1989, the number of individual entrepreneurs had already fallen from the previous year. The forecast at the beginning of the year called for 700,000 people to pursue individual entrepreneurship, but this number was not achieved. There was little hope that hundreds of thousands of people would take this option under the program of improvement and rectification.

The situation described above shows that shrinking employment opportunities in all categories of enterprises has been a major cause of the unemployment peak of the past few years.

#### **VI. Changes in Industrial Structure; A Comparison Between the Causes of the Two Unemployment Peaks (3)**

The issue of industrial structure can be examined from two different perspectives, the first being the relative strength of different industrial sectors. We will leave agriculture out of this discussion because it has little impact upon urban employment. The second perspective focuses on the structure of tertiary industry.

We pointed out ten years ago that the ease of finding employment is closely related to whether industrial structure is rational. Industrial structure determines not only the structure of employment, but the total numbers, as well. China's industrial structure was not rational. It was excessively weighted toward heavy industry, while light industry was relatively underdeveloped. The extreme underdevelopment of such service sectors as commerce and restaurants, which belong in the category of tertiary industry, limited the ability of the national economy to absorb labor, and was one of the major causes of the unemployment peak of 1979.

However, industrial structure was not improved during the latter half of the 1980's, i.e.—the Seventh Five-Year Plan. On the contrary, new problems appeared.

First, new problems plagued industrial structure. Processing industries (manufacturers), which constitute secondary industry, grew too fast. In particular, manufacturers in the heavy industry sector maintained a very high growth rate throughout the 1980's, and constituted the most rapidly growing part of heavy industry. Enterprises producing raw and semi-finished materials, which make up the extractive industries, grew at the slowest rate. This caused a serious imbalance within the structure of heavy industry.

Secondly, commercial enterprises, hotels, restaurants, and other service industries which make up tertiary industry, developed very quickly. However, transportation, posts and telecommunications, and banking remained underdeveloped. Transportation, energy, and raw and semi-finished materials became a bottleneck which obstructed development of the national economy. Tertiary industry accounted for a greater percentage of

the national economy in the 1980's than it had ten years before, but there was a great imbalance within tertiary industry.

Imbalances in industrial structure plunged industrial enterprises throughout the country into a "five-fold shortage" of coal, electric power, raw and semi-finished materials, transportation, and funds. This affected national economic development. During the third quarter of 1988, in order to suppress a new round of inflation, a policy of economic retrenchment was adopted. The money supply, credit, demand, capital spending, and procurement were further restricted in 1989. These measures had some success in alleviating inflation, but supply was restricted along with demand. The imbalance between aggregate supply and demand was not eliminated, and in fact it led to a slump in production. Industrial production grew at a rate of 0.9 percent in 1989, and it posted a negative growth rate in October 1989 and the first two months of 1990. The stagnation and decline of industrial production cost several million jobs.

The current unemployment peak which began in 1989 differs from that of ten years before, insofar as industrial structure is concerned, in the following ways: 1) The imbalance in industrial structure ten years ago was primarily between light and heavy industry. Light industry lagged seriously behind heavy industry. This time it has mainly been such basic sectors as energy, transportation, the extractive industries, and raw and semi-finished materials which have lagged behind and constituted a bottleneck in the path toward national economic development. 2) The program of improvement and rectification has constituted an excessively harsh blow to consumer markets. The market slump has inevitably incurred a contraction in the production of consumer goods, which in turn has inevitably led to poor sales of capital goods, severe shortages of working capital, and fitful production cycles. Thousands of medium- and large-sized enterprises have been forced into suspension or semi-suspension of production. Not only have they been unable to absorb new labor, many of their own laborers have had to "await employment while on the payroll." 3) The current unemployment peak has occurred against a backdrop of aggregate demand which exceeds and aggregate demand, slumping markets and stockpiled inventories, and the simultaneous existence of shortages and surpluses, all of which have made it more difficult to overcome the unemployment peak.

#### **VII. Thoughts on How To Get Past the Unemployment Peak**

These differences between the current unemployment peak and that of ten years before show us that the situation is worse this time. They also present us with new problems and make us realize that some old concepts are not applicable to today's conditions, and some old methods of operation do not get the job done anymore. Conditions have forced us to think along new lines and seek new solutions. These new lines of thought

follow two paths, one related to unemployment and the other related to employment.

Thoughts on unemployment includes the following points:

First, 40 years of history in the People's Republic of China and current conditions confirm that unemployment has always existed in our nation, and that it will surely continue to exist in the future. It now exists openly in society, and there is also hidden unemployment in enterprises, which is referred to as "awaiting employment while on the payroll" and "unemployment on the job." We must realize that as the economy develops, hidden unemployment will inevitably come into the open. The problem of "awaiting employment while on the payroll" will surely become a concern of the entire society. The question now is: What is the proper level of unemployment in China? Could we take the 3 percent figure mentioned earlier as the highest acceptable limit for unemployment in our country?

Second, we must immediately thereafter establish a series of systems and procedures for managing unemployment and offering unemployment benefits to those in need of them. The government must establish agencies to carry out this work. The most pressing task at this time is to carry out universal unemployment registration, and to formulate and implement unemployment benefits distribution procedures, so as to assure a minimum standard of living for those unemployed.

Third, we must bolster job training and begin to offer employment counseling. We have a lot of experience dealing with job training of unemployed persons during the past ten years. We should sum up what we have learned from it and build upon these lessons. We must establish centers to disseminate job information in order to provide more effective employment counseling.

Fourth, we must establish welfare programs. For the long-term unemployed who still cannot find work after their unemployment benefits have expired, the welfare system (which generally means civil administration departments) must offer welfare benefits. We must also establish the appropriate systems and legal apparatus to support this work.

Thoughts on employment includes the following three points:

First, we must change the objective of our employment policy. Where before it has been a simple effort to find jobs for unemployed persons, we should now pursue a dual objective of relieving unemployment and improving economic benefits. We must insist on doing away with the old willingness to resolve unemployment problems at the cost of reduced productivity. Our unemployment work must not only assure jobs for laborers and achieve social stability, but must also achieve the optimum combination of labor and the means of production, and increase economic benefits, so that economic growth and the employment of laborers will become mutually complementary.

Second, we must change the overall philosophy of our employment policy. The current "three-combination approach," which is primarily characterized by a reliance on centralized allocation of jobs by the government, must be replaced by primary reliance upon a competitive labor market. The "three-combination approach" adopted in 1980 was a major advance from previous total reliance upon centralized allocation of jobs by the government, yet it still has very much in common with this system. Practice during the last ten years has proven that the "three-combination approach" still relies mainly upon administrators who place workers mainly in enterprises under the ownership of the whole people. This philosophy has resulted in such large numbers of redundant personnel that it has been necessary to "optimize the labor mix" and "force the departure" of "extra personnel" in order to raise productivity, rectify labor discipline, lower costs, and lighten the burden upon enterprises. The "three-combination approach" must be replaced with a system which relies primarily upon a competitive job market.

Third, we must change the mechanism by which our employment policy is executed. In coordination with the change in the overall philosophy of our employment policy, the labor force must be allocated not through administrative fiat, but through the market mechanism. The government's macroeconomic regulation and control must be exercised indirectly instead of directly. The result of these changes will be the formation of a labor market. If we are to successfully implement this new system, we must allow both parties to labor contracts to act as independent commodity traders. We must allow free movement of the labor force (including regular labor as well as highly skilled scientists and technicians), and resolutely do away with the ownership of labor by work units. We must also eliminate barriers and obstacles to the movement of labor. In addition, we must carry out wage reform so that wages can serve as a lever to regulate the labor market.

## POPULATION

### Problems of Marriage Structure in Urban Areas

93CE0207A Beijing ZHONGGUO RENKOU BAO  
in Chinese 16 Nov 92 p 3

[Article by Wang Xiuhua (3769 4423 5478): "Marriage Problems of China's Urban Population"]

[Excerpt] [Passage omitted] The Marriage Situation Among China's Urban Population

The marriage situation, which could also be called the marriage structure, reflects the state of marriages at a certain time in a certain locality, as it is commonly a state of all citizens of 15 or more years of age (hereafter merely called "over 15 years").

The marriage structure of the Chinese urban population shows the following special characteristics:

1. Most of the population over 15 years is married.

According to data from the 10 percent sampling of the fourth general census in 1990, in all of China's population of over 15 years, 25.1 percent were unmarried, and 68.2 percent had a spouse. At the same time, for the same annual period, the proportions for the inhabitants of the three cities of Beijing, Tianjin, and Shanghai were 19.4 percent unmarried and 74.2 percent with spouses. What is noteworthy here is that although the proportion of married is comparatively high among China's urban population in relation to the entire population, it is due to the more effective population control work in the cities, as compared to such work throughout the whole country, that the proportion of unmarried persons is still lower than for the entire country. This is an indication that the underage population of between the ages of 15 and 20 is lower in the cities than throughout the country, and that the average of married persons among the underage population is also lower than for the whole country.

## 2. First Marriage Ages are Comparatively High in the Urban Population

In 1990, the proportion of unmarried among the whole nation's population aged 15 to 24 was 73.95 percent. For Shanghai and Beijing the same proportions were 83.1 and 83.46 percent, respectively. It indicates that the age for first marriage was later in the cities than among youths in the countryside. The same proportions also differ for the towns and townships under the jurisdiction of Beijing Municipality as compared with the villages: In 1990, the proportion of unmarried in the population aged 15 to 24 in the city of Beijing was 87.5 percent, the proportion of unmarried in areas under town jurisdiction was 88.45 percent, while it was 72.96 in the areas under county jurisdiction. This equally shows that the ages of first marriages was higher in the cities than in the villages.

3. Marriages are fairly steady among the urban population, but their divorce rate is higher than the national average. The data from the 10 percent sampling of the 1990 nationwide census indicate that the divorce rate for the country's population of over 15 years of age was 0.6 percent; for the three cities of Beijing, Tianjin, and Shanghai the average ratio was 0.78 percent. A comparison of the three cities shows that the ratio was highest in Shanghai, namely 0.9 percent, second highest in Beijing with 0.72 percent, and lowest in Tianjin, where it was the same as the national average, namely 0.6 percent. An analysis reveals:

First, that the divorce rate among the urban population shows an upward tendency; Second, that the divorce rate among the urban population rises faster than the national average. In 1990, the divorce rate of the population over 15 years of age in the three large cities was 0.76 percent, which was 0.24 percentage points higher than the 0.52 rate of 1982; Third, that the divorce rate among the urban population is higher than the national average. Furthermore, it is mostly the female party that is plaintiff in divorces among the urban population.

## Marriage Problems Among the Urban Population

There are various problems in the marriage situation of the urban population which should attract serious attention.

### 1. The earlier ages of urban youths at their first marriages.

The ages of first marriages are generally lower in the cities than in the countryside. From 1980 on, as the ages at first marriages for youths throughout the entire country declined, the ages of urban youths at first marriage also declined. Nationwide, the average age at first marriage of women declined from 23.12 in 1979 to 22.66 in 1982, a decline of 0.46 years. In the cities the decline was from 25.4 to 24.93, a decline of 0.47 years.

In 1988, the proportion of married men of 24 years of age in Beijing was almost 50 percent, and the proportion of married women of 23 years of age was as high as 61.46 percent. A comparison of the marriage situation of the 1990 census with that of the 1982 census shows that marriages of youths of both sexes below the legal marriage ages have markedly increased: The proportion of married male youths of between 15 and 21 years of age in the total male population of the same age group was 3.2 percent, which was 2.5 percentage point more than the 0.7 percent of the 1982 census, i.e. a multiple of 3.57. The proportion of female youths of between 15 to 19 years of age within the total female population of that age group was 1.21 percent, 0.6 percentage points more than the 0.61 percentage of the 1982 census, or a doubling of the earlier figure. There was a large increase in the proportions of male and female youths marrying at the lowest legal marriage ages: Men married at 22 years of age made up 28.69 percent of the total population of that age group; for women married at 19 years of age the proportion was 13.7 percent. Compared with 1982, the increases had been 11.28 and 5.6 percentage points, respectively. The picture was similar in Shanghai: The proportion of unmarried youths of 15 to 24 years of age dropped from 90.3 percent in 1982 to 83.1 percent in 1990. Relatively speaking, the proportion of married youths of 24 years of age has risen 7.2 percentage points.

### 2. Comparatively larger numbers of older youths in the cities remain unmarried.

In 1982, the proportions of unmarried male and female youths of 25-29 years of age throughout the country were 23.58 and 5.26 percent, respectively, while the corresponding figures for Beijing were 27.9 and 16.1 percent. In the case of male and female youths of 30-34 years of age the figures were 8.84 and 0.69 percent, and in Beijing 6.8 and 3.3 percent, respectively.

## Solving the Marriage Problems of the Urban Population

To cope with the marriage problems of the urban population we should encourage late marriages and late childbearing, and also control the ages for first marriages.

According to relevant investigations, 65 percent of Chinese women now become pregnant within the first three months after marriage, and 83 percent within the first year after marriage. Early marriages will therefore unavoidably result in early childbearing. A survey of the State Statistics Administration revealed: In 1986, women who married below the legal marriage age made up 11.42 percent of the population of the same age group. As a consequence, 1.16 million more babies were born in 1986 than in 1985, and they accounted for 35 percent of the additionally born babies of the population in 1986. In 1987, the additional population due to early marriages again steeply increased to 2.5 million.

We have to say that, throughout the country as a whole, it is the early marriages in the countryside that are an even more conspicuous problem, but the early marriages and early childbearing in the cities in the last few years should also be given the fullest attention.

#### **Strengthening the Medical and Health Care for the Middle-Aged Population, Reducing the Rate of Middle-Aged Having Lost Spouses**

After age 35, the ratio of people having lost their spouses has markedly risen. Chinese of around 50 years of age are persons who work hard without complaining, but strenuous work, poor living conditions, and excessive work load, has these people die before their time. Some middle-aged teachers, scientists, and artists die in the prime of their lives. There are, of course, other reasons for the death of the middle-aged, but improving the health of the middle-aged is a problem of great urgency.

#### **Provide Opportunities and Encourage Remarriage of Older People**

Older medical professionals and physiologists believe that remarriage by older persons who have lost their spouses, or are separated from them, is beneficial for the physical and mental health of the old, and is also beneficial for society and for the households in question. The rate of remarriages of older people in the cities has always been unduly low, however, and especially among the female population of over 50 years of age the rate of those having lost their spouses by far exceeds the rate of remarriages. Although this situation is better among the male population, as compared with the female population, but there, too, for men above 60 years of age, the rate of those who have lost their spouses is by far much larger than the rate of remarriages.

There is much resistance against older people remarriage; in the first place, the older people themselves are under the influence of vestiges of feudal thinking. Many single older persons, especially older women, hold on, to varying degrees, to the idea of loyalty to one person up to one's own end. Even if an older person may wish to remarry, all kinds of social reasons will exercise their influence against remarriage.

#### **Rural Population Control in 1990's**

93CE0207B Beijing ZHONGGUO SHEHUI BAO  
in Chinese 27 Nov 92 p 3

[Article by Gu Shengzu (6581 0524 7091), professor at Wuhan University: "Looking for a Breakthrough—Exploring Population Control in China's Rural Areas during the 1990's"]

[Excerpt] Chinese society has two constituents, one is made up by the cities with their comparatively high level of modernization, and one is made up by the economically backward countryside. In the cities, where, on the foundation of successful economic development, female employment, social security, the educational system, and the city's local social environment, also supported by powerful administrative restraints, are very effective factors toward lower birth rates, China's population control has reached an almost ideal state.

Conditions in China's rural areas are quite different, however; population control is basically carried out through a variety of restrictive mechanisms under socioeconomic preconditions that have changed little. Although women of the rural areas participate in agricultural production, their production is neither socialized and standardized, nor is there strict organizational discipline, so that women are indifferent to the issue of multiple births. There has been no development at all in the rural areas of any social security arrangements, and this makes it still necessary to raise sons to provide for old age. Population in the rural areas is to a large extent uneducated, which again makes it difficult to change their views on childbearing. At the same time, in matters of population mobility, the system of segregation through the census register, with its sharp division of city and countryside, induces peasants to leave the land while retaining their village connection, i.e., inducing a part of the peasant population to enter the cities as a kind of "floating population," without cutting the "umbilical cord" that connects them with the land. This system is detrimental to all efforts to dispel some traditional concepts, such as the concept of "preserving continuity of the family line [by having a son]." During the 1970's, at the time of the people's communes, China's rural population control relied mainly on administrative restraints. In the 1980's, administrative restraints were no more effective for peasants working under the output-related responsibility system, so that reliance was then predominantly placed on economic restraints. The product of purely economic restraints has been a phenomenon expressed in the phrase "those with money do not fear to be fined, those without money do not fear if they are fined."

If we want to continue our efforts to reduce the birthrate of the rural population, the 1990's require that we attach special importance to the restraining mechanism of the law, because pure administrative or economic restraints are at times too "rigid" and at times too "soft." In the 1990's, we have to develop a restraining mechanism which has the restraining power of the law at its core. We



must "render more rigid" the overly soft economic restraints, and we must change the unmethodical, compulsory administrative character into the normalized, standardized, and strict, compulsory character of the law. At the same time, speaking of improving the socio-economic conditions, we must take as our breakthrough points: reform of the rural social security system and adjustment of the urban and rural population structure. We must build up a new mechanism of social inducements that will have people spontaneously change their conduct in matters of childbearing to one oriented toward reducing births.

We believe that the fundamental obstacles to population control in the 1990's are the extremely underdeveloped social security system for old people in the rural areas and the irrational distribution of the population as between cities and countryside. Perfecting the rural social security system is a prerequisite for any further reduction of the birthrate, as it is also the indispensable policy to deal with the consequences of China's population control during the last 20 years, namely the increasing ageing of the population. Accelerating the movement of rural population to the cities and towns is the basic direction for a thoroughgoing change of rural attitudes in matters of childbearing. The concept of "preserving continuity of the family line" is deeply rooted in the minds of the peasants, who for generations have been firmly attached to the soil, and it is only by mobility between urban and rural populations that this concept can be rapidly dispelled.

In the 1980's, it was tried to induce a change in the childbearing habits of the rural population by offering rewards to those with less childbirths, but results have not been very good. In the 1990's, we should institute a new inducement mechanism:

1) Putting into effect an old-age pension plan for one-child parents and for parents undergoing ligation or vasectomy after the birth of their second daughter, allowing those with exemplary conduct in family planning to be the first to join the rural old-age social security system, so that they will be cared for in their old age and need not worry about not having someone to take care of them in their later years.

2) Giving preference to those with exemplary conduct in family planning, and to their children, in any arrangements to change their status [especially census registry] from "agricultural" to "nonagricultural."

A huge sum of money will be required to implement these two types of inducements, and it would be unrealistic to rely merely on the state to provide the funds. We believe that a plurality of fund providers could ensure initiation of the new mechanism of incentives for population control. It is conceivable that in a comparison of a rural old-age social security system with a "four-legged" investment subject [i.e. supported by only two persons] and a system of population mobility between city and countryside where the state provides only the policy and

the investment comes from the beneficiaries, the latter is more acceptable than the former.

In view of the great disparities between cities and countryside in China, opening the city gates to children and parents of one-child families is bound to create a huge flood of immigrants to the cities. There have to be some bolts at the gates to stem the flow of population into the cities and to ensure that whatever population enters the cities corresponds in quantity and quality to the needs of the nonagricultural development. It follows that there have to be more restraining conditions in the implementation of this plan. For instance, those who are given preference in entering the cities should have to contribute to urbanization funds (e.g. urban construction funds, housing funds, employment funds, etc.), and those allowed into the cities must be capable of working in nonagricultural production. In consideration of the population saturation in the large cities, these migrants should as much as possible be directed to medium and small cities. The said comprehensive plans for population control and for the transfer of population from agricultural to nonagricultural work will, on the one hand, not add to the financial burden of the state, and will, on the other hand, have the double effect of controlling the quantity of the population, as well as raising the quality of the population.

In short, the rural population control in China during the last 20 years has been carried out through restraining mechanisms. At present, the continued lowering of the birthrate in the rural areas is seriously constrained by the two "bottlenecks" of the old-age security system and the population mobility system. As to the rural population control in the 1990's, apart from stepped-up use of restraining mechanisms, particularly the institution of a restraining mechanism that has the restraints of the law as its core, it is more important to institute a system of social security for the aged and a new system of population mobility.

## TRANSPORTATION

### Record Number of Ports Opened Jan-Oct 1992

93CE0216C Beijing JINGJI CANKAO BAO in Chinese  
25 Nov 92 p 1

[Article by Li Haifu (2621 3189 3904): "Port Construction in China Proceeds With High Efficiency and Speed"]

[Text] Since the beginning of this year, China has accelerated construction of its port system. The construction of 24 category one airports, seaports, rail ports, and highway ports has been approved. China now has 175 category one ports and 330 category two ports. From January through October, 120 million tons in foreign trade goods were shipped through sea, land, and air ports, and 63 million passengers entered and departed. These figures were 9 and 10 percent higher, respectively, than those for the same period in the previous year.

Tang Xiaoguang [0781 4607 0342], director of the State Council's Ports Office, described the current situation in the National Conference of Port Commission (Office) Directors, which was held on 20 November in Zhengzhou. He stated that construction this year has proceeded rapidly and with high efficiency, and that they had worked hard to speed up the approval and inspection process. The 24 ports opened this year were the most ever. The central government and local governments are cooperating, as are work units and government agencies, and we have brought about a new situation in our airports, seaports, rail ports, and highway ports.

Such border provinces and regions as Heilongjiang, Inner Mongolia, Xinjiang, Guangxi, and Yunnan have utilized their advantageous geographical positions to establish trading ports dealing with the Commonwealth of Independent States, Mongolia, Vietnam, Burma, and Laos. Inland provinces and municipalities have focused on the construction of airports, and they have also built rail and highway ports. Since the beginning of this year, trade airports opened up in the inland provinces include Luoyang, Changchun, Lanzhou, Guiyang, and Huangshan.

#### **Gansu Highway Development Outlined**

93CE0216A Lanzhou GANSU RIBAO in Chinese  
22 Nov 92 p 1

[Article by Huang Lü (7806 4845) and Zhao Zhili (6392 1807 4409): "Gansu Invests 900 Million Yuan To Build High-Grade Highways"]

[Text] Having earnestly studied the spirit of the 14th Party Congress, the Gansu Transportation Department has moved quickly to readjust the highway construction plan for the Eighth Five-Year Plan. It has decided to invest over 900 million yuan to build a freeway from Tianshui to Beidao, and a half-range [0584 1607] style freeway from Lanzhou to Zhongchuan. It will also upgrade six key economic routes throughout the province, as well as the section of road leading out of Lanzhou on the west side. This will advance the highways of Gansu province to a new level of quality.

It is reported that, thanks to the efforts of the great masses of workers and staff in the highway system, preparatory work for construction of the 13 kilometers of total-range style freeway from Tianshui to Beidao has already been completed. In preparation for construction of the grade three highway from Niubei (on the Shaanxi border) to Beidao, the Tianshui municipal government has already formulated a set of nine concessionary policies dealing with land acquisition and laborers. Leaders from the Gansu Department of Transportation have made on-site inspections and directed the rapidly progressing construction work. In phase one of the project to change the route between Lanzhou and the Zhongchuan airport, 24 kilometers of half-range freeway have been built, and 40 kilometers have been upgraded to a grade two highway. The entire highway will be a limited access highway after completion of phase two construction. Phase one will cost 110 million yuan,

which alone will equal cumulative investments in highway construction in Gansu for the first 13 years following the founding of the republic.

At the same time, a project underway this winter and next spring to upgrade a six-road highway grid has been accelerated. On 1 November, ground was broken on a 450-kilometer upgrade of the highway from Lanzhou to Langmusi and Xiahe. This upgrade will play an enormous role in spurring economic prosperity among the ethnic groups living in southern Gansu and around Xiahe county. Construction of the 239-kilometer grade two highway running from Dingxi, through Huining, and on to Jingning, has been accelerated. This road is part of the Xilan highway, a key route crossing the province from east to west. More than 20 construction crews are presently battling hard day and night at the sections in Lanzhou, Dingxi, and Baiyin, which is a departure from their usual custom of not doing construction work in the winter. In addition, permission has been received to carry out preliminary testing of the entire road bed, as well as a 50-kilometer paved segment, of the section of the Gansu-Xinjiang grade two highway running from Liuyuan to Xingxingxia.

#### **Jiangsu Transport Chief on Major Highway Projects**

93CE0216B Beijing ZHONGGUO JIAOTONG BAO  
in Chinese 24 Nov 92 p 1

[Article by Xu Huaqiang (1776 5478 1730): "Accelerating Construction of Jiangsu's Main Transportation Network"]

[Text] After the 14th Party Congress, the Jiangsu provincial government stated its intention to maintain a higher pace of economic growth in Jiangsu than in the rest of the country. In order to achieve this lofty goal, the key is to accelerate highway construction, thereby fundamentally altering the backward state of transportation in Jiangsu province. At present, there is a policy to the effect that "all the party must get to work, all the province must be mobilized, and all the people must work on transportation projects." Under this policy, we have concentrated our resources to accelerate the building of transportation infrastructure. The great campaign to spur vigorous economic development has been launched along a battle line several thousand miles long throughout the province.

In this great campaign, the provincial party committee and the provincial government have assigned rush priority to the construction of five key transportation projects which will have a strategic impact upon Jiangsu's overall economic development. More than 10 billion renminbi will be spent on these projects, which include the Shanghai-Nanjing freeway, the bridge over the Changjiang River at Jiangyin, a grade one highway from Nanjing to Lianyungang, another one from Nanjing to Nantong, and rectification of the Sunan Canal. We are determined to complete the Changjiang River bridge at Jiangyin in 1997, and to complete the other four major projects by the end of 1996.

Work on the Shanghai-Nanjing freeway and the Sunan Canal, both of which pass through southern Jiangsu, is proceeding at an accelerated pace, and preparatory work for the Changjiang River bridge at Jiangyin, which will link up northern and southern Jiangsu, has been completed ahead of schedule. We are presently acquiring land, removing buildings, and doing earthwork for the Nanjing-Lianyungang and Nanjing-Nantong grade one highways, which will pass through northern Jiangsu.

As an old revolutionary district, northern Jiangsu is a land of broad vistas with severely underdeveloped transportation infrastructure. It is the strong desire of tens of millions of people in northern Jiangsu to quickly build a transportation network in the region, and the Jiangsu Party Committee and the provincial government are also determined to achieve this. Our transportation agencies are devoting all their energy to this work.

The Nanjing-Lianyungang grade one highway is 325 kilometers long and links the provincial capital of Nanjing to Lianyungang, the eastern terminus of the new Eurasian land bridge. It will be one of the major shipping routes from Lianyungang. The grade one Nanjing-Nantong highway will be 219 kilometers long and will link Nanjing together with the ancient cultural center of Yangzhou and the open port of Nantong. It will do much to spur rapid development of the Changjiang River economic region.

The major projects scheduled for the 9th Five-Year Plan include: 1) the Huai-Jiang (Huaiyin to Jiangdu) freeway, 100 kilometers in length. This constitutes a section of the coastal state highway which runs from Tongjiang (in Heilongjiang province) to Sanya (in Hainan province). It will pass through Lianyungang, link up with the important northern Jiangsu city of Huaiyin, and then wind south, paralleling the course of the Grand Canal, passing through the north-central Jiangsu localities of Huaian, Jiangdu, and Jingjiang. It will then cross the Changjiang River bridge at Jiangyin and link up with the Shanghai-Nanjing freeway. 2) A second project will be the 200-km Lianyungang-Xuzhou highway, which will link Lianyungang to the national transportation hub of Xuzhou. It will make up one section of the key state highway from Lianyungang to Huocheng, in Xinjiang. 3) In addition, there will also be projects to upgrade and widen the Nanjing-Yancheng grade one highway and the Nanjing-Xuzhou and Xuzhou-Huaiyin highways, as well as a project to rectify the 70-km Xuzhou section of the Beijing-Hangzhou Canal.

In this manner, after ten years of effort, Jiangsu will have built a highly developed transportation grid branching out in all directions from Nanjing. At the same time, with the construction and expansion of sea and river ports as well as airports, we will have achieved an historical opening to the entire country and world, creating an unprecedentedly favorable set of circumstances which will allow Jiangsu to maintain a rate of economic growth higher than that of the rest of the country.

## AGRICULTURE

### Qinghai Implements Land-Use Reforms

93CE0200B Xining QINGHAI JINGJI BAO in Chinese  
9 Nov 92 p 3

[Article by Wang Shiyuan (3769 0013 0337) and Chen Hongfu (7115 3163 4395): "Provincial Trial Compensated Use of Village Residential Bases Launched in Ledu"]

[Text]The provincial trial compensated use of village residential bases was launched in an overall manner recently in Gaomiao Town, Ledu County.

To give economic expression to the landowners' land ownership and use and legally to safeguard land users and uphold the public ownership of land, in accordance with the spirit of relevant State Council and provincial government documents, the provincial land administration department has determined that, beginning this year, they will gradually implement a system of compensated use of rural residential bases throughout the province. The compensated use system upholds the principle of "setting the quota by household and collecting the appropriate fees; if the standard is exceeded, more is paid, if it is usurped, there is a greater penalty; accounts are settled by household and paid annually; what is taken from the households is used by the village; and all benefit from appropriate use." Within specified land use standards, we realize compensated use and we also must consider the masses' economic endurance.

Residential base user fees are collected on an annual basis, once a year. The standard residential base for each household is not to exceed 0.4 *mu* in river districts (including ravines and branch waterland) and is not to exceed 0.5 *mu* in mountain districts. The standard fee for residential base areas within the legally stipulated standards is for a user fee of 0.02 to 0.04 yuan to be collected each year on each square meter in river districts and ravine and branch waterland and 0.01-0.03 yuan to be collected each year on each square meter in mountain districts. A double user fee will be collected on that exceeding standards. In poor rural areas or when natural and manmade disasters occur, their residential bases are exempt from the user fee. The user fee for land used for operational purposes is slightly higher than for general residential bases by one to three times.

### Sichuan Expands Grain Sector Price Reform

93CE0200A Chengdu SICHUAN RIBAO in Chinese  
1 Nov 92 p 1

[Article by Xu Yuanliang (6079 0337 0081): "Sichuan Expands the Scope of Trial Reforms of the Grain Purchasing and Sales Systems—Grain Purchase Prices, Selling Prices, and Allocation Prices Are Totally Freed Up in the Nine Cities and Localities of Chengdu, Chongqing, Neijiang, Zigong, Luzhou, Leshan, Panzhihua, Yibin, and Deyang From 1 November"]

[Text] To meet the demands of the socialist market economy and further order the grain pricing systems and

reform grain operating mechanisms, the provincial party committee and the provincial government have decided to further expand the scope of the trial reform of Sichuan's grain purchasing and sales systems.

Beginning from 1 November, grain selling prices and allocation prices, including all prices of feed and grain products, will be totally freed and market adjustments will be implemented throughout the province, except in all the counties of Ganzi and Ngawa autonomous prefectures and all the counties of Mianyang Municipality and Guanghan Municipality, where trial reform is already underway. At the same time, grain purchasing prices will be simultaneously freed in the nine cities and localities of Chengdu, Chongqing, Neijiang, Zigong, Luzhou, Leshan, Panzhihua, Yibin, and Deyang.

In the nine cities and localities where the grain purchasing and sales prices are being totally freed, the governments are adjusting the "three linkages" policy regarding grain, abolishing advanced purchase earnest money for grain purchases, and changing the linkage to diesel oil to negotiated purchase supply. They are not changing the linkage of grain to the amount of fertilizer, [but] they are changing to pricing according to the unified production price of fertilizer. As regards the supply of grain to urban residents, they are abolishing the ration coupon and voucher parity price method of supplying grain rations. The residents' standard ration will continue to be retained, [but] they are changing to ensuring supply by selling at negotiated prices. They are giving urban workers appropriate subsidies, so that workers' actual standard of living will not be greatly affected. Agricultural taxes in these regions are changing to levying grains in kind and generally will not do replacement money.

In grain purchases and sales, for a number of years Sichuan Province has consistently implemented the low price policy. Purchasing and sales prices were upside down, too unified, and too rigidly controlled, restraining production, encouraging waste, and increasing the financial burden on the state. Since the Third Plenum of the Eleventh Party Central Committee, grain purchasing and sales and pricing systems have undergone a series of reforms, and especially last year and the first half of this year, have successfully carried out two price reforms and have realized the same prices for purchasing and sales. But in the overall situation, some deep contradictions and problems having fundamental significance still remain to be solved. So, in accordance with the Fourteenth Congress's demand to establish a socialist market economic system, it is imperative to speed up the pace of grain reforms and to change the model of a planned grain economy to a socialist market economy model.

Since last April, Sichuan has successively conducted one step trial grain reforms in fourteen counties (and cities), including Guanghan and Mianyang, achieving good success, which shows that grain reform can be expanded on a larger scale. In addition, in recent years Sichuan Province's total grain yields have exceeded the highest levels in history, the state and society's reserves are ample, grain supply and demand are balanced and have a surplus, current grain list market, parity, and negotiated price differentials are very small, and prices are stable. So, this is a rather opportune time to speed up reform of the grain purchasing and selling systems. From a long-term perspective, it also totally conforms to the fundamental interests and the long-term interests of the broad masses.

## CENTRAL-SOUTH REGION

### Overview of Henan Cultural Relics Situation

93CM0051a Zhengzhou HENAN RIBAO in Chinese  
3 Oct 92 p 1

[Article by Gao Jinguang (7559 6855 0342): "About Cultural Relics in Henan"]

[Excerpts] In the introduction to *Natural Dialectics* Engels analyzed the cause of the Renaissance in Europe. He pointed out profoundly: "Scripts salvaged during the last days of the Byzantine Empire and ancient statues dug out from the ruins of the Roman Empire revealed a whole new world—the ancient times of Greece—in front of a shocked Western hemisphere. Before the glorious images of ancient Greece, the ghosts of the Middle Ages disappeared and unprecedented artistic developments began to take place in Italy." This is the value of cultural relics. This is the tremendous force of cultural relics.

As one of the four largest nations of ancient civilization in the world, China has numerous precious cultural relics left over from 5,000 years of long history, which "revealed a whole new world in front of the shocked Western hemisphere."

As one of the main birthplaces of the Chinese nation, our province, Henan, holds an extremely important place in the area of cultural relics. With hard work and wisdom, our ancestors created a splendid, brilliant culture on the land of Central Plains. Then....

### What Is Our Glory?

First, let us take a look at some statistics. Surveys show that Henan Province now has more than 28,000 sites of various kinds of valued relics, of which, 30 sites have been declared by the State Council as key national cultural relics protection units, 527 as provincial-level cultural relics protection units, and 3,614 sites as county- and city-level cultural relics protection units. Henan Province ranks first in the nation in underground cultural relics, and ranks second, next only to Shanxi, in aboveground cultural relics. Three of the seven major ancient capitals of China—Luoyang, Kaifeng, and Anyang—and five of the 62 famous historical and cultural cities of China—Luoyang, Kaifeng, Anyang, Shangqiu, and Nanyang—are located in Henan Province. Of some 10 million pieces of cultural relics stored in Chinese museums, over 1.3 million, about one eighth of the nation's total, are kept in Henan. Henan is a province with most museum-kept cultural relics.

These cultural relics in Henan cover a long span of time in history and are of a wide variety. They are also of relatively high value and are distributed over a fairly broad area. Ruins of all kinds, including ancient cities, graves, buildings, caves, and statues can be seen everywhere, from west to east and from north to south, in Henan Province which has just about everything one would expect to find regarding cultural relics. [passage omitted]

Henan not only has the cream of our national culture but also a galaxy of talents. Henan has both outstanding

people and land resources. Many philosophers, politicians, strategists, writers, artists, and scientists were either born or achieved success and became immortal here. [passage omitted] Yes indeed, there are too many things we can be proud of. But we should also clearly realize that the treasure our ancestors left us is facing a major issue—protection. Then....

### Where Is Our Problem?

First of all, cultural relics in Henan Province have serious natural damages. Some aboveground relics face the dangers of collapse and destruction. The State Cultural Relics Bureau and the Henan Provincial Revenue Department allocate special funds every year to maintain and repair ancient buildings in Henan Province, but because Henan has too many cultural relics, less than half of the cultural relics of high value have been maintained and repaired in the past 40 years or so after the founding of the PRC. Some cultural relics and ruins of ancient sites continue to collapse due to their age and lack of maintenance. For instance, a wing and a side hall of the Puti Temple in Zhengping County, a pagoda courtyard and the main hall of the Xiangyan Temple in Xichuan, the Liuxiu hall of the Shengwang Temple in Meng County, a side hall of the Anguo Temple, a famous temple of southern Henan, and the Jieguan Pavilion of the Jidu Temple in Jiyuan have either collapsed or partially collapsed in recent years.

Second, cultural relics in Henan Province continue to suffer from constructive destruction. This is mainly because some people have very little concept of rules and regulations on cultural relics. When dealing with the relation between capital construction and the protection of cultural relics, they fail to put cultural relics in the right position. Instead, they often proceed from the interests of small groups and carry out by force construction which should not be carried out, causing undue damage to cultural relics.

Third, criminal activities such as illegal digging, stealing, and smuggling of cultural relics are relatively prominent in Henan Province. Lawless persons collaborate with others within and outside the border of Henan Province to seek staggering profits, causing large amounts of cultural relics to be destroyed and lost. Several hundreds of ancient graves along the river bank of the Danjiang reservoir of Xichuan have been robbed, and broken pieces of relics can be seen everywhere. The world famous Guoguo Cemetery of the Sanmen Gorge has also been robbed by some lawless persons. Several group grave robberies have occurred in the suburbs of Luoyang City and its neighboring counties. First, there were groups of three to five people. Then there were hundreds and even thousands of people engaging in such activities. First they did it secretly at night. Now they do it openly in broad day light. What is more, they have targeted particularly large graves and graves of famous people. The harm of such activities is immeasurable.

In light of the abovementioned problems, then....

**How Do We Deal With This?**

At the National Work Conference on Cultural Relics held in Xian in May 1992, leaders of the central government set forth the principle of "focus on protection and make salvage a priority." Like Comrade Li Ruihuan [2621 3843 3883] said, the key at present is to "save lives first and cure diseases later." Some cultural relics can be preserved through little salvage efforts; otherwise, they will be destroyed. Cultural relics cannot be recreated. We must have the attitude of being responsible to the cultural heritage of the motherland and focus limited funds to guarantee the survival of major cultural relics.

Our country is really short of funds at the present. The Central CPC Committee and the State Council have determined to increase the 1992's direct central funding by 70 million yuan and the 1993's funding by 80 million yuan. Comrade Li Ruihuan said: "With 80 million yuan of funding, the central government expects one or two 80 millions in matching funds from the local government." For this, Fan Qinchen [5400 2953 5256], deputy governor of Henan Province, solemnly announced on behalf of the Henan Provincial Government at a provincial cultural relics work conference that the Henan Provincial Government has decided to match the state funding dollar for dollar. He said that if the provincial treasury cannot provide all the funds, the governor's reserve funds will be used for this purpose. This is indeed a popular measure that conforms to the tide of history. Governor Fan issued special calls to mayors, commissioners, and magistrates in all localities, urging them to come up with some money to salvage cultural relics and to match state and provincial funding dollar for dollar.

While protecting and salvaging cultural relics, it is also necessary to improve rules and regulations regarding cultural relics and ensure that propaganda is linked to crack downs. This year is the 10th anniversary of the "Cultural Relics Protection Law." We should seize this golden opportunity to carry out a province-wide large-scale propaganda activity to help everyone understand that "it is honorable to protect and shameful to destroy cultural relics." In view of the danger that ancient grave robbing has formed a network, it is also imperative to rely on public security, political, and judicial departments to crack down on a number of major and key cases and arrest a number of arch criminals.

Of course, the ultimate purpose of cultural relics protection is utilization and display. Under the current situation of reform and opening up, properly and rationally utilizing cultural relics in a scientific manner appears to be especially urgent and pressing. Then....

**How Do We Develop the Advantage?**

Cultural relics have great educational functions. In recent years, Henan's museum undertaking developed rapidly. The total number of museums has reached 62. Of which, 39 are history-oriented, 11 are memorial halls, and 12 are specialty museums, which have formed a preliminary museum network with Henan characteristics. For instance, the Tangyin Yuefei Memorial Hall sponsored an "Exhibit

of Yuefei Historical Relics," the Luoyang Folk Museum sponsored exhibits of embroidery, folk arts, wedding and birthday ceremonies, and shadow play. The provincial museum sponsored an "exhibit of new democratic revolutions in Henan." All these exhibits have played a positive role in social education. What is exciting is that the "Henan History Museum," which is a state-level museum, has been approved by the State Council and made into a project by the State Planning Commission. The investment scale of this museum is 175 million renminbi. It will take up an area of 100-plus mu. It is estimated to be completed in Zhengzhou around 1995.

To develop the advantage of Henan's cultural relics, we must have the concept of reform and pioneer and establish the understanding that "cultural relics provide the base and the economy does the performance." During a recent visit to Japan, Governor Li Changchun [2621 7022 2504] conducted frequent propaganda to introduce Henan's cultural relics, ancient sites, and famous cultural scenic spots, creating quite a stir. Different social circles of Japan expressed interest in viewing the numerous cultural relics and ancient sites of Henan Province. This shows that Henan's cultural relics have great economic potential.

Second, we should organize more overseas exhibits of cultural relics. Henan has been carrying out this task for over 10 years. Henan's cultural relics have been displayed in over 10 countries, including Japan, the United States, Singapore, and France, and achieved multiple results. Compared to neighboring provinces and municipalities, there is much to be desired, however. From now on, in addition to participating in state-sponsored foreign exhibits of cultural relics, Henan should vigorously plan to hold its own profit-oriented foreign exhibits of cultural relics, jointly sponsor foreign tours with other cultural and artistic groups in the province, or get involved in other trade and economic activities so as to earn more foreign exchange for the state.

In addition, there is great potential in such areas as the production and marketing of replica of cultural relics, the business of audio and video production of cultural relics, and other extended business of cultural relics. There is great room for development in this regard.

In sum, as long as the whole province is willing to unite as one, to boldly carry out reform, and to do a down-to-earth job, the future of cultural relics work in Henan Province is extremely bright. The Spring of Henan's cultural relics undertaking will be more charming and magnificent.

**NORTHWEST REGION**

**Theory Justifying Stagnation in Xinjiang Opposed**  
*93CM0103A Urumqi XINJIANG RIBAO in Chinese*  
23 Oct 92 p 4

[Article by Wang Shuanqian (3769 2165 0051): "A Preliminary Analysis of the Theory that 'Stagnation in Xinjiang Is Justifiable'"]

[Text] Reform and opening up have entered upon a period of across-the-board, three-dimensional progress. Xinjiang is now taking great strides toward the front lines of reform and opening up, and is working to grasp this rare opportunity to develop itself. The broad masses of cadres and the people have analyzed and come to an understanding of the true nature and manifestations of the theory that "stagnation in Xinjiang is justified," and in the process they are eliminating this concept and its pernicious effects. This is extremely significant to our efforts to further liberate thinking, deepen reform, expand opening up, and develop Xinjiang.

### I.

The term "stagnant" [zhihou] is actually a combination of the terms "tingzhi" [stagnant] and "luohou" [backward]. By "tingzhi" we refer to a situation in which the economy moves forward intermittently and slowly, and development creeps along at a snail's pace. By "luohou" we refer to a gap between Xinjiang and the nation's advanced and developed regions, and a gap between the current state of Xinjiang and the conditions required by a modern commodity economy. To characterize Xinjiang as stagnant is not to negate the superiority and progressive characteristics that may be demonstrated by a certain aspect of the social economy in a given district. Stagnant is a relative term, not an absolute one. The theory that "stagnation in Xinjiang is justifiable" does not negate the progress and success achieved by Xinjiang's social economy, nor does it deny the backwardness of Xinjiang; rather, after recognizing the stagnation of Xinjiang, it covers up this stagnation by declaring that this state of affairs is in line with "actual conditions in Xinjiang." It holds that it is normal for Xinjiang, during the course of economic development, to move slowly, react tardily, and often find itself reacting to outside events. The theory that "stagnation in Xinjiang is justifiable" holds that it is natural for Xinjiang to lag behind China proper, and for its social and economic progress to occur slowly. This theory is a type of concept and ideological understanding which holds that stagnation is an unavoidable phenomenon which is appropriate to the needs of development in Xinjiang. This theory argues that slow social and economic development in Xinjiang and the slow pace of reform and opening up is due to objective conditions. This theory views with equanimity the gap between Xinjiang and advanced regions in China proper, and it attempts to explain the inevitability and reasonableness of this gap. This theory is the manifestation of a longstanding tendency on the part of people in Xinjiang to prefer "comparing yourself with those less fortunate, since it is no use comparing with those better off." They tend to be blindly optimistic and complacent.

Stagnation manifests itself in many ways in Xinjiang, the following being the main ones: stagnation in the development of a commodity economy; stagnation in the maturation of markets; stagnation of concepts and ideology with respect to reform and opening up; stagnation of consumption concepts and styles; stagnation in tertiary industry; and stagnation in scientific and technological development. These types of stagnation are generally the result of

a combination of positive and negative factors, which easily confuses people and causes them to mistakenly believe stagnation is a kind of advantage. In 1987 and 1988 during the so-called "investment overheating" and "consumption overheating," many places in China proper were indeed incredibly "heated up" while Xinjiang (mainly Urumqi) had only just begun to "heat up" (this was the 'stabilizing effect' of stagnant consumption and investment concepts). Then came three years of improvement and rectification to correct this economic overheating. The fact that Xinjiang had not completely "heated up" seemed to be a good thing, and in the minds of some people, Xinjiang's stagnation became an advantageous factor beneficial to our economic development. In reality, with the extremely rapid development which had occurred in a few years in many parts of China proper, economic development and reform advanced to a higher level. Xinjiang missed out on an opportunity for tremendous economic progress.

In the area of policy-making and behavior amenable to manipulation, the aforementioned "stabilizing effect" has manifested itself in the form of "retrenchment policies" and "decreasing benefits from policies." In other words, localities have not fully implemented reform and opening up policies handed down from above, but have tacked on various regulations to mitigate their effect. The result has been that the things that should have been freed of government regulations have not been, and vice-versa. The government has tied its own hands and feet. Much successful experience with reform and opening up in China proper has not been transplanted quickly or boldly in Xinjiang; opportunities have been squandered, and reform policies which could have brought even greater benefits have, in fact, yielded less and less as their implementation has moved into Xinjiang. It was only after the central government formulated eight concessionary policies for Xinjiang that people woke up, came to a new understanding of the situation, and took new steps forward.

Eliminating the theory that "stagnation in Xinjiang is justifiable" will be of great significance to reform and opening up in Xinjiang. First, it will enable the thorough inculcation of a reform and opening up mentality among the people of Xinjiang, and will bring a thorough liberation of thinking. Second, we will be able to grasp the opportunity to accelerate Xinjiang's reform and opening up, and develop the economy. Third, it will push Xinjiang toward the front lines of reform and opening up, where we can move forward aggressively. Fourth, it will play the role of a trail blazer in paving the way to a prosperous Xinjiang economy and a dramatic development of Xinjiang's forces of production.

### II.

There are many opinions regarding the fact of Xinjiang's stagnation, and about the reasons for it:

—"As long as we maintain stability in Xinjiang and strengthen unity among the different ethnic groups, being stagnant in some aspects will not affect the



overall situation." Under this guiding philosophy, we have taken a very active stance to maintain unity while doing little to correct the problem of stagnation, so stagnation has gone uncorrected for a long time.

According to this view, our work to solidify ethnic relations and our efforts to change Xinjiang's stagnation are mutually exclusive. In reality, strengthening stability and unity and changing our stagnant state are mutually complementary. First, development and prosperity are the foundation for resolving ethnic problems and maintaining stability and unity. Only with economic prosperity can we truly promote ethnic unity. Second, social and economic stagnation is an important cause of poor performance in our work with ethnic groups, and of political instability in regions populated by ethnic minorities. With the local autonomy enjoyed by the various ethnic minorities today, the most important tasks to be achieved if we are to strengthen unity among ethnic groups include developing the forces of production, making the economy prosper, and changing the stagnant state of minority regions. Third, by eliminating stagnation we will create the fundamental preconditions for economic development in Xinjiang. It would make rapid social and economic progress possible, and the gap between Xinjiang and China proper could be reduced or eliminated. Fourth, eliminating stagnation will accelerate the pace of reform and opening up in Xinjiang and add to the momentum and vitality of economic development. Reform and opening up would not only change the stagnant state of Xinjiang, but would also resolve ethnic conflict and problems, thereby further shoring up ethnic unity and stability in Xinjiang.

The broad masses of cadres and the people are aware of the importance of stability and unity in Xinjiang, and they have attached priority to doing a good job in this area. This is completely appropriate, but they are not sufficiently aware of the relationship between changing Xinjiang's stagnation and the effort to maintain stability and unity. Tendencies to "seek stability and fear chaos" and to "fear that going too fast will cause mistakes" still bedevil some people, so they are too cautious about reform and opening up, and about economic development. In our effort to overcome the theory that "stagnation in Xinjiang is justifiable," we must stress the importance of working on both reform and ethnic unity; furthermore, we must be firm in both these aspects of our work.

—"Xinjiang is unique, and it is bound to be stagnant in comparison with China proper." This view holds that Xinjiang could not fail to be relatively stagnant because it is a border region with a lot of poverty and ethnic minorities, it is far from the advanced and open coastal areas, it has historically been very backward, its forces of production are very weak, its commodity economy is not very developed, transportation is inconvenient, and information is not very available. To be sure, Xinjiang is indeed different from China proper in terms of its geographical location, natural environment, history, productive forces, ethnic composition, and local conditions. One cannot therefore conclude that "stagnation in Xinjiang is justifiable,"

however. In other words, one cannot attribute stagnation in Xinjiang to objective causes.

First, Xinjiang's pre-Liberation circumstances have been one cause of its social and economic backwardness, but they have not been a principal cause of Xinjiang's stagnation, because for one thing, Xinjiang's current stagnation is related to the backward state of its productive forces prior to Liberation. This is one factor which has led to current economic weakness in Xinjiang, but it is not an important cause of Xinjiang's backwardness vis-a-vis the advanced provinces and regions of China proper. In reality, the forces of production were extremely underdeveloped and backward throughout China prior to Liberation. It can be said that every part of China basically started at the same point following Liberation, so when China proper achieved rapid economic development, Xinjiang's relative stagnation could not be attributed to historical stagnation. Furthermore, in the 40-plus years since Liberation, having received a lot of special attention from the party and the government, and with unity among its various ethnic groups, Xinjiang's socialist revolution and socialist reconstruction have achieved tremendous successes. Xinjiang's social and economic conditions have undergone thorough changes. Xinjiang has established an independent and relatively complete industrial system, and it has laid a solid foundation based upon stable and abundant production in agriculture and animal husbandry. Urban and rural development have proceeded apace, and the people's standard of living has improved greatly. Under such circumstances, Xinjiang's stagnation cannot be attributed to backward forces of production. At the same time, there are countless places around the country which have gone from rags to riches even though their circumstances have been much worse than those in Xinjiang. All of this shows that in the program of reform and opening up, as long as our thinking is liberated and we boldly undertake reform, even the poorest of places can totally change its circumstances and join the ranks of localities enjoying rapid economic growth.

As for those who mention the fact that Xinjiang is a region populated by ethnic minorities, this is indeed the case. It would be wrong to make no distinctions and expect Xinjiang to "march hand in hand" with China proper in its social and economic development. Such expectations would not be in line with Marxist ethnic theory and policies, nor would it be in line with conditions in Xinjiang. Our fundamental objective in taking special note of and stressing the uniqueness of an ethnic region is to spur economic prosperity in such a region, and to spur rapid development of its forces of production, not to offer this uniqueness as a reason for maintaining backwardness and preserving all factors which hinder the development of Xinjiang's forces of production. It is not our intention to justify stagnation in Xinjiang.

So how should we regard Xinjiang's uniqueness? We should look at it in a positive light. If Xinjiang is unique, it is because of its superior natural resources and incomparably favorable geographic location. Xinjiang's unique natural conditions require that we use a unique method to

develop Xinjiang's forces of production. This unique method involves taking an even more open approach to reform than that adopted by southern coastal areas. This will enable Xinjiang to prosper more quickly. Xinjiang already enjoys great advantages conducive to vigorous economic development. It has a great potential to link up with regions to the east and west. It could very well become a future commercial and trading center of the Eurasian heartland.

—"The central government gives Xinjiang special subsidies, anyway, so what does it matter if we are stagnant?"

It is true that the central leadership attaches great importance to social and economic development in Xinjiang, and it has given Xinjiang a great deal of support in the form of human, material, and financial resources. Statistics indicate that from 1949 through 1991, central government subsidies to Xinjiang have amounted to more than 28 billion yuan. With the support of the state, Xinjiang has achieved tremendous change. Without the support of the state, Xinjiang could not achieve social and economic development, but neither could it be successful in this regard without the common efforts of each ethnic group in the Autonomous Region.

1. Special consideration for Xinjiang by the state is limited, and it would be impossible to change Xinjiang's stagnant state within a short period by relying solely on the financial resources of the central government. In the future, apart from pooling its resources to help invest in major projects in Xinjiang, the central government will require that Xinjiang rely on its own resources for

everything else. Subsidies cannot be increased much. Since the beginning of reform and opening up, the state has changed the "highly centralized" system in which "revenues and expenditures were all handled by the state" and people at the local level relied completely on the state. Where it used to "give blood transfusions," the central government now "creates blood," which basically means that "the central government hands down policies, while those at the local level create income." Thus it is not feasible to rely totally upon the state.

2. Xinjiang's economic development must be based on its own strengths. It must achieve development by taking full advantage of the various programs and policies formulated by the party. After comrade Deng Xiaoping's speeches in the south, Xinjiang also became a beehive of activity. The central government gave Xinjiang eight concessionary policies. These eight policies are guiding the bold efforts of every ethnic group in Xinjiang to pursue reform and opening up. These policies are the magic talisman which will enable us to change and turn around Xinjiang's stagnant state.

3. Stagnation in Xinjiang affects the entire country's program of reform and opening up. Xinjiang's economic development constitutes an important link in the entire country's economic development effort. If social and economic growth remains stagnant for a long period of time in Xinjiang, it will put a damper on national economic development. This is not in line with the interests of the people of the entire nation, nor is it in line with the interests of the various ethnic groups in Xinjiang. Therefore, we should view the effort to change Xinjiang's stagnation as a matter of utmost importance to the effort to build socialism with Chinese characteristics.

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